

DETERMINANTS OF EMERGING MARKET FOREIGN DIRECT INVESTMENTS IN THE UK

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Abstract

Although Emerging Market (EM) Outward Foreign Direct Investment (OFDI) has become an increasingly significant phenomenon in recent years, research regarding EM OFDI to Developed Markets (DMs) remains at an ‘emerging’ stage. This thesis seeks to address this shortfall through the following research questions: 1) what are the determinants of EM OFDI to the UK, and 2) what are the influencing factors of subsequent investment decisions of EM firms within the UK?

Considering the distinctiveness of EM OFDIs in their firm-specific characteristics, given circumstances and motivations, this thesis applies an adapted ‘Resource-based view (RBV)’ framework and institutional theory to build a theoretical framework. Within this the hypotheses/propositions regarding ‘strategic-asset seeking’, ‘market-seeking’ and ‘institution-seeking’ motivations of EM OFDI, which reflect both ‘pull factors’ (advantages in hosts) and ‘push factors’ (disadvantages at home), are developed. Panel analysis was conducted to address the first research question with Greenfield data only due to data availability. Additionally, a case study was conducted; firstly, for the purpose of triangulation; secondly, to supplement the panel analysis results with M&A data; and lastly, to address the second research question. Both panel and case study analysis results generally support the major theoretical assumptions of this thesis, although the ‘market seeking’ motivation variable in panel analysis has statistically insignificant coefficient and there is a lack of case study data to support the ‘institutional push factor’.

This thesis contribute to the body of knowledge of FDI and IB area 1) by providing an adjusted theoretical framework for the analysis of EM OFDI to DM with a novel application of institutional theory and RBV; and 2) by qualifying and extending existing works on EM OFDI by including a wider range of EM source countries and DM hosts whilst extending the scope of study to the less-researched ‘post-investment stage’ of EM OFDI, with empirical analysis results as well as theoretical suggestions.

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ACRONYMS

BRICS	Brazil, Russia, India, China and South Africa
DM	Developed Market
EM	Emerging Market
EU	European Union
FDI	Foreign Direct Investment
FSA	Firm Specific Advantage
GDP	Gross Domestic Product
IB	International Business
IDP	Investment Development Path
IFDI	Inward Foreign Direct Investment
IMF	International Monetary Fund
LLL	Leveraging, Linking and Learning,
MNE	Multi-National Enterprise
NIC	New Industrial Country
NIE	New Institutional Economics
NOI	New Organisational Institutionalism
OFDI	Outward Foreign Direct Investment
OLI	Ownership, Locational and Internalisation
OLS	Ordinary Least Squares
RBV	Resource-Based View
SOE	State-Owned Enterprises
SWF	Sovereign Wealth Fund
VIF	Variation Inflation Factor
WEF	World Economic Forum

Ch.1 INTRODUCTION

1.1. Background

1.1.1 Emerging Market Outward Foreign Direct Investment

This thesis examines the determinants behind the locational decision of Emerging Market (EM) Foreign Direct Investment (FDI) in the UK. Since the end of the last century, EMs have increasingly participated in FDI due to the accelerated globalisation and their rapid economic development (UNCTAD, 2008). EMs absorbed more than half of the total global Inward FDI (IFDI) flows, the amount exceeding that of developed economies for the first time in 2012 (UNCTAD, 2013). Furthermore, this fast growth has been observed in Outward FDI (OFDI) flows as well. In the mid-2000s, the OFDI stock from EMs, which was of a negligible amount in the early 1980s, reached over one trillion dollars, and the number of individual EMs with OFDI stocks of more than \$ 5 billion also more than quadrupled from only six countries in 1990 to 25 countries in 2005 (UNCTAD, 2005; 2006). This growing trend of EM OFDI continued, accounting for around a quarter of world OFDI flows in 2009, whilst in 2012 its share rose to almost one third of the global OFDI flows (UNCTAD, 2012; 2013). EMs' strong performance in OFDI activity can also be observed in the global ranking of the largest FDI investors. Whilst the number of EMs in Top 20 FDI investors has been increasing in recent years, China was ranked as the world's third largest investor behind the US and Japan in 2012 (UNCTAD, 2012; 2013, p.35)

The increasing significance of this phenomenon has also drawn growing attention from scholars (Buckley, *et al.*, 2014). The World Investment Report of 2006 (UNCTAD, 2006) dedicated a chapter to this issue and in the same year, Mathews (2006, p.20) also challenged Buckley (2002)'s argument that "the International Business (IB) field has yet to find its next

‘big question’ to guide research in the 21st century” by suggesting EM OFDI as ‘the next big question’ in the relevant field. In line with his argument, this thesis aims at exploring this phenomenon further.

In particular, amongst the EM OFDI issues, this study focuses on those to Developed Markets (DMs). The so-called ‘first wave’ of EM OFDI was observed as early as the 1960s, but this phenomenon was rather marginal and mainly concentrated in Latin America (Goldstein, 2007). It was from the 1980s onward that EM OFDI started to demonstrate a more ‘globalised’ phenomenon and only recently has EM activity to DMs started to emerge (Goldstein, 2007; Gammeltoft, 2008). The ‘upstream investments’ from EMs to DMs have drawn attention due to their ‘unconventionality’. When EM MNEs such as Lenovo (Chinese) and Tata Motors (India) acquired IBM and Land Rover respectively, these deals drew attention as the acquisitions were in the opposite direction to conventional expectations (*i.e.*, a DM firm acquiring an EM firm) (Hamm, 2005; Leahy and Yee, 2008) and these ‘emerging giants’ provided evidence that the direction of expanding FDI flows can be reversed (Khanna and Palepu, 2006; Cohen, 2008).

However, despite the increasing significance of outward EM OFDI to DM, it remains a relatively ‘unreached’ subject in FDI studies, particularly lacking empirical studies on this theme. Therefore, the purpose of this thesis is to provide greater insight into this area by investigating the phenomenon of EM OFDI to DM through empirical analyses. This introductory chapter is structured as follows: 1) Part 1 provides a brief historical review of EM OFDI and an introduction to recent studies on EM OFDI; 2) Part 2 then explains how this study has been shaped by introducing the research question and the fundamental framework of the study; 3) Part 3 sets boundaries and considers the scope of the study; whilst 4) Part 4 describes how the whole thesis is structured and provides a summary for this introductory chapter.

1.1.2 Historical review of EM OFDI

Exploring how, and why, a certain phenomenon started and developed is a necessary step in understanding the phenomenon fully. Literature on the history of EM OFDI categorises it into two ‘waves’ related to time; however, regarding whether a new third wave of EM OFDI is underway is a moot point. The next sub-sections concentrate on each wave, reviewing the history of how EM OFDI was initiated and has undergone dynamic change. In the final sub-section, the present movement, the ‘third wave’ will be discussed within this historical framework.

1.1.2.1 The First Wave

The first wave reaches back to the 1960’s, when the first OFDI flows from EMs began to be observed. This movement was observed mainly within Latin America where fast growing EMs were concentrated, and emerging MNEs (Multi National Enterprises) started to appear in Argentina, Chile, Mexico and latterly in Brazil, Colombia and Venezuela (Gammeltoft, 2008). These developing countries in Latin America hosted much larger IFDI than other developing countries until early the 1970’s (Goldstein, 2007); even in the 1980’s Argentina and Brazil comprised 13.4% and 20.4% respectively of OFDI stock from EM countries (Narula and Nguyen, 2011).

The rapid growth in that region encouraged these countries to develop ‘national champions’, so-called “Multilatinas”, which could compete in the global market through the ‘import substitution policy’ (Goldstein, 2007, p.68; Todaro and Smith, 2009). Their main motivations were to access natural resources or new foreign markets, and to escape from bureaucratic restrictions at home (Gammeltoft, 2008). Moreover, their destinations were mainly neighbouring countries in their region with a short ‘distance’ both in terms of

geography and market characteristics, although an insignificant amount of capital flight to developed markets due to home constraints could also be observed (e.g., Venezuelan OFDI to US) (Andreff, 2003; Goldstein, 2007; Gammeltoft, 2008). Based on the discussion so far, it can be concluded that although this first wave of EM OFDI was a ‘new’ phenomenon, the ‘novelty’ was not significant enough to be designated as “new animals” (Andreff, 2003, p.74) or “new species” (Mathews, 2006, p.7) when compared to conventional OFDI.

1.1.2.2 The Second Wave

This phenomenon of EM OFDI developed greatly in the following decade. From the 1980’s onward, EM OFDI stock increased dramatically from \$60 billion in 1980 to \$129 billion in 1990 and further to \$869 billion in 2000 (Mathews, 2006). The dramatic changes in EM OFDI were not only observed in quantitative terms but also in the dynamic changes in qualitative characteristics. In the 2006 World Investment Report, FDI research also extended the scope of study from a mere description of the new phenomenon to developing some distinctive conceptual frameworks to explain this ‘newness’ (Mathews, 2006; UNCTAD, 2006; Gammeltoft, 2008; Narula and Nguyen, 2011).

One of the distinctive changes in the second wave of EM OFDI was its regional shift from Latin America to the Far East. ‘Dragon Multinationals’ (Mathews, 2006) from Asian EMs with Newly Industrialised Countries (NICs) leading this group, were rapidly catching up their Latin counterparts, ‘Multilatinas’ (Goldstein, 2007). There were important exogenous and endogenous factors behind this regional shift in fast-growing EMs. Studies viewed the 1980’s as a benchmark for globalisation, dividing the world before and after 1980’s into pre- and post-globalisation respectively (Mathews, 2006; Goldstein, 2007; Dunning *et al.*, 2008). This exogenous force of intensified globalisation ‘pulled’ the second wave of EM OFDI onto

the stage (Mathews, 2006). At the same time, endogenously, the ‘export-oriented’ government policies in Asian EMs were in nature ‘outward-looking’ and therefore, were more ‘pro-FDI’ compared to the ‘import-substitution’ policies during the first wave (Dunning *et al.*, 2008; Todaro and Smith, 2009). In fact, the NICs’ share of OFDI stock from EMs more than tripled from 21% to 66% by 1993 (Narula and Nguyen, 2011).

Although the main investment direction of EM OFDI remained as South-South, the Asian MNEs’ South-South investment demonstrated a more mature investment behaviour (*ibid*). For example, while seeking for new markets within the region continued to be the most dominant motivation, some fast growing Asian Tigers such as Taiwan and Singapore started to make substantial amounts of investment to less-developed Asian developing countries in their search for access to cheap labour (Goldstein, 2007; Gammeltoft, 2008).

The dynamics in the second wave went even further. Some EM MNEs showed radical behaviour such as targeting markets much more advanced than their home countries or acquiring ‘global brand’ companies of DMs (*i.e.*, upstream investment), which was not only distinguishable from the first wave of EM OFDI but also difficult to account for within the conventional framework for FDI such as Investment Development Path (IDP) perspective (Goldstein, 2007; Luo and Tung, 2007; Gammeltoft, 2008). These behaviours were expected to be found at the final stage of IDP according to the theory, but some of the EM MNEs in the second wave did not seem to adhere to the conventional path. Due to their distinctive characteristics as well as their remarkable growth in size and number, this second wave of EM OFDI became “a good starting point to analyse the existing literature on EM MNEs and how their behaviour may differ from that of long-established competitors” (Goldstein, 2007, p. 52).

1.1.2.3 The Third Wave?

Another significant difference of the second wave compared with the first wave was that Asian EMs and their MNEs had grown to the level where they demonstrated increasingly similar patterns to those of ‘mature stage of FDI in IDP’, traditionally only found amongst DMs and their MNEs (Narula and Nguyen, 2011). The pioneer EMs of the second wave, such as South Korea, Hong Kong and Taiwan, had become net FDI exporters competing with Western counterparts, and based on this factor, some studies excluded NICs when they defined ‘emerging markets’ in their EM OFDI analysis (Andreff, 2003; Luo and Tung, 2007).

As these ‘successfully grown-up’ EMs and their OFDI from the second wave increased, discussions regarding the next wave of EM OFDI also emerged. Newly fast-growing emerging economies such as BRIC (Brazil, Russia, India and China) or BRICS including South Africa, had been increasingly involved in OFDI, sharing more than a half of EM OFDI (61%) by 2004, and accounting for 10 percent of the world total in 2012 with their OFDI flows soaring from \$7 billion in 2000 to \$145 billion in 2012 (Gammeltoft, 2008; UNCTAD, 2013 p.13). A new wave of EMs was not limited to these few economies. In recent years, it was new EMs such as West Asian countries and Transition economies which showed stronger performance in OFDI flows in terms of percentage growth in their figures than those of the first or second wave of EMs (UNCTAD, 2011; 2012; 2013).

In this context, some studies (e.g., Chudnovsky and Lopez, 2000; Andreff, 2003) proposed that these economies could be categorised separately from the second wave implying “the emergence of a third wave of...(EM)...OFDI” (Gammeltoft, 2008 p.4). However, the agreement regarding the third wave of EM OFDI was not as strong as the ones for the previous waves. Firstly, the deviations of the third wave from the second wave were not as distinctive as the latter’s from the first wave, but rather were more an intensification of the novel characteristics which emerged in the second wave (*ibid*). Secondly, some studies

argued that many of these new EMs “failed to fulfil their potential as significant outward investors, and converged...with the NICs” (Narula and Nguyen, 2011 p.3).

Nevertheless, it seems that at least there was consensus regarding ‘newly emerging markets’ if not on ‘the third wave of EM OFDI’. Recent studies on EM OFDI suggested that the deviations of the new EMs from the two previous waves were still “sufficiently significant” (Luo and Tung, 2007; Gammeltoft, 2008, p.5) and tried to investigate these newly emerging markets (e.g., Sauvart, 2005; Deng, 2007; Bertoni, *et al.*, 2008; Filippov, 2010; Holtbrugge and Kreppel, 2012; Kaya, 2013). In line with this, the next sub-section will review these studies to summarise what have been explored and to consider what is missing in these studies for the positioning of this thesis.

1.1.3. Recent studies on EM OFDI

Although some pioneering studies on EM OFDI can be found as early as the late 1970s/early 1980s, such as Lecraw (1977), Kumar and McLeod (1981), Lall (1983), and Wells (1983), the number and significance of EM OFDI was minor relative to other forms of FDI at that time. It was in the 2000s that research interest in this trend renewed, having reduced in the 1990s, coinciding with the emergence of some significant EM MNEs showing competitiveness at the global level (Cuervo-Cazurra, 2012). Moreover, the phenomenon of EM OFDI has evolved greatly from that found by these studies (Mathews, 2006; Gammeltoft, 2008; Narula and Nguyen, 2011). More recent developments in EM OFDI are very ‘different’ compared to the traditional OFDI flows from developed markets. Focusing on the ‘newness’ or ‘difference’, there have been discussions on (1) history of EM OFDI types and characteristics, (2) theoretical framework within which this new phenomenon can be explained in terms of whether new theories are needed or new applications of conventional

theories are justified, (3) the characteristics of EM MNEs which perform OFDI in terms of their motivations, strategies, type of FDI and related to (3), (4) both the endogenous and exogenous background which influence EM MNEs' behaviour regarding OFDI decisions whilst more recently some studies have started to consider the 'post-investment' stage of EM OFDI, such as EM MNEs' performance in the host. Example studies on these themes can be found in Table 1.

Table 1. Summary of the studies on EM OFDI

Subjects	Author
History, types and characteristics	Mathews, 2006; Bertoni <i>et al.</i> , 2008; Gammeltoft, 2008 ; Ramamurti and Avenue, 2008; Narula and Nguyen, 2011;
Theoretical frameworks in terms of whether new theories are needed or applications of conventional theories are justified	Mathews, 2006; Luo and Tung, 2007; Buckley <i>et al.</i> , 2008; Peng <i>et al.</i> , 2008; Ramamurti and Avenue, 2008; Yamakawa <i>et al.</i> , 2008; Tolentino, 2012
The characteristics of EM Multi National Enterprises (MNEs) such as their motivations, strategies and performance	Makino <i>et al.</i> , 2002; Mathews, 2006; Luo and Tung, 2007; Bertoni <i>et al.</i> , 2008; Dunning <i>et al.</i> , 2008; Gammeltoft, 2008; Ramamurti and Avenue, 2008 ; Yamakawa <i>et al.</i> , 2008; Alon, 2010; Holtbrugge and Kreppel, 2012; Contractor, 2013
The endogenous and exogenous background which influence EM MNEs' behaviour	Mathews, 2006; Luo and Tung, 2007; Buckley <i>et al.</i> , 2008; Dunning <i>et al.</i> , 2008; Yamakawa <i>et al.</i> , 2008; Rugman, 2009; Luo <i>et al.</i> , 2010; Ning and Sutherland, 2012; Tolentino, 2012; Wang <i>et al.</i> , 2012;
Post-investment stage of EM OFDI	Gubbi, <i>et al.</i> , 2010; Buckley <i>et al.</i> , 2014; Sanfilippo, 2015

Source: Author's summary

However, despite the fact that both the EM OFDI trend and respective scholarly interest have been growing, this area has remained a ‘minor’ topic within the IB and FDI research domain as argued by several scholars (e.g., Cuervo-Cazurra, 2012; Gammeltoft *et al.*, 2012). Following Surdu and Mellahi (2014), who carried out a systematic review of a substantial amount of FDI literature (1,016 academic articles from 14 journals between 1970 and 2013) on foreign market entry, even amongst the most recent papers between 2000 to 2013, only 27 percent of studies investigated non-DMs (p.11). Furthermore, amongst these non-DMs, the majority was ‘more developed Asian markets’ plus China and India, with only 6 studies in the 2000s having looked at other EMs such as countries in Eastern Europe, Latin America or South Africa etc. Their study, however, do not show the whole picture of FDI or IB studies as their level of analysis is mainly limited to firm-level with an emphasis on ‘foreign market entry’. Nevertheless, considering the substantial number of articles from well-established IB journals they looked at, and that ‘foreign market entry’ is regarded as a ‘frontier field’ in IB research, their findings at least imply that there is still much to explore regarding EM OFDI. Moreover, studies on EM OFDI have been mostly case studies based on well-known anecdotal cases, summarising common characteristics or suggesting propositions/models rather than testing them empirically or conducting primary research (e.g., Makino *et al.*, 2002; Luo and Tung, 2007; Holtbrugge and Kreppel, 2012). From the host country perspective, there are even fewer studies on EM OFDI to DM, and in most cases this theme has been dealt with as a part of broader studies rather than as a major subject in and of itself (e.g., Makino *et al.*, 2002; Luo and Tung, 2007; Alon, 2010). Studies focusing on EM OFDI to DM within the host country context, particularly regarding European DM host, are very few and largely only surveys (e.g., CEPII-CIREM, 2010; Sanfilippo, 2015).

Although the most recent studies on EM OFDI have started to carry out more ‘empirical research’ of the phenomenon of EM OFDI to DM (e.g., Buckley *et al.*, 2008; Alon, 2010;

Gubbi, *et al.*, 2010; Buckley *et al.*, 2014) and the number of studies focusing on ‘EM OFDI to DM country host’ is also growing (e.g., Bertoni *et al.*, 2008; Yamakawa *et al.*, 2008; Gubbi, *et al.*, 2010; Buckley *et al.*, 2014; Sanfilippo, 2015), the number still remains relatively low whilst the areas these studies address are also limited. For example, 1) the studies listed above focus mostly on ‘M&A’ cases of EM OFDI to DM; 2) samples of EMs are largely limited to BRICs, particularly China; and 3) it is only very recently that studies on EM OFDI’s post-investment stage have started to emerge (e.g., Gubbi, *et al.*, 2010; Buckley *et al.*, 2014; Sanfilippo, 2015). Therefore, there is still a great need for ‘confirmation of the propositions/models’ and ‘generalisability of findings’ regarding the phenomenon of ‘EM OFDI to DM’ in various areas through empirical research (Surdu and Mellahi, 2014 p.14). Reflecting this overview of recent studies on EM OFDI, this study focuses on EM OFDI to DM, 1) selecting the UK as the host and covering a wider range of EMs as target EM sources; 2) including both the pre- and post-investment stage; 3) investigating Greenfield cases in-depth; and 4) conducting both empirical qualitative and quantitative research in methodological terms. The next section will shape this thesis in details with introduction of the research question and a fundamental framework for the study.

1.2. Shape of the study

1.2.1 Research question: Determinants of EM OFDI and influencing factors of subsequent investment decisions of EM firms in the UK

This thesis seeks to examine the determinants and influencing factors behind the locational decision of EM FDI into and within the UK. This research question can be divided into two sub-questions: 1) ‘what are the determinants of EM OFDI into the UK?’, questioning what determines EM OFDI’s entry into a DM host country; and 2) ‘what are the influencing

factors of subsequent investment decision of EM firms within the UK?', investigating in what manner the entry stage determinants of EM OFDI and other factors faced by the EM firms at the operational stage in the DM host country affect their further investment decisions. From these main research questions emerges two subjects to explore: EM OFDI to DM hosts and investment decisions at both pre- and post-investment stages.

The first key topic of this thesis' research questions, 'EM OFDI into DM hosts', is significant in several ways. Firstly, it is an unconventional trend. This kind of 'upstream investment', which is like "punching above their weight" as Contractor (2013) puts it, is a feature rarely found in traditional FDI from DMs. Therefore, this trend goes against common expectations and challenges from traditional FDI theories which have been developed based on DMs. In this way, this theme certainly has its potential to extend the understanding of FDIs.

Secondly, this topic is still a relatively unexplored area. This issue has already been discussed in the previous sub-section regarding recent studies of EM OFDI. To summarise, although there have been a growing number of studies on EM OFDI, these studies are still a minority in the relevant area, and moreover, studies on the EM OFDI into DM hosts, particularly empirical or primary research studies, are very few. Even those few studies focus heavily on Chinese OFDI (e.g., Buckley *et al.*, 2008; Alon, 2010) and 'DM hosts' are considered only as a part of the host country group which consist of both EM and DM hosts, leaving 'EM OFDI to DM hosts' from host context as an unreached research agenda. To generalise suggestions and findings regarding a certain subject, there needs to be a substantial amount of evidence from any accumulated various studies. In this way, this thesis, by focusing solely on the EM OFDI to DM case in depth, and with the major research question of what determines this relatively unreached phenomenon, can contribute to the body of knowledge of FDI and IB studies.

Finally, the trend of EM OFDI into DMs growth appears to be positive. Quoting UNCTAD's World Investment Prospects Survey 2011-2013 confirms that EMs are becoming important FDI investors and that this trend is likely to continue in the near future (UNCTAD, 2011, p.33). This suggestion is also supported by the fact that there has been a growing number of newly joining EMs in OFDI in recent years (UNCTAD 2012; 2013). This perspective of the growth in EM OFDI and in the range of EMs participating in OFDI leads to the assumption that EM OFDI overall will also be dynamic, leading to increased activity in DMs as well. Moreover, considering the recent stagnant performance of DM OFDI, EMs' role as an FDI investor in DMs may become critical too (UNCTAD, 2011; 2012; 2013). Therefore, this study can have implications across a broader area such as relevant government policy as well as in academic areas by investigating what influences decisions of EM OFDI to DMs.

The second key subject of this thesis' research questions is EM firms' investment decisions at both pre- and post-investment stages. This thesis' two sub-questions refer to the entry and operation stages respectively. To address these sub-questions, the first part of the study will carry out an analysis of EM Greenfield OFDI determinants into the UK at a national level; the second part of the study will seek to confirm the results from the first part of analysis using a sample of EM firms in the West Midlands at a regional level whilst extending the scope of analysis to the influencing factors of the expansionary investment decision of EM in a DM host by these firms.

By investigating decisions of the 'EM OFDI into/in the DM host' at both the pre- and post-investment stages, this study can understand this phenomenon as a complete picture. Several studies agree that little research has been done on firms' post-investment decisions linking these issues to the pre-investment decisions, such as foreign market entry decisions, which have significant implications on firms at the post-investment stage in their performance or subsequent investment decisions (Zahra and George, 2002; Wei, 2010; Nyuur, 2014; Surdu

and Mellahi 2014). This thesis' fundamental assumption of distinctiveness in the determinants of EM OFDI to DMs leads to the conclusion that this distinctiveness will also influence EM firms' operations and in turn their subsequent investment decisions at the post-investment stage in the DM hosts.

1.2.2. Shape of the study

A key concept of FDI determinant theory is that a decision on FDI entry to a certain location is related to certain advantages available to the MNEs from that location. Earlier studies suggested 'relative factor endowments and relative factor costs' in the host as the main determinants of FDI (Agiomirgianakis *et al.*, 2003; Faeth, 2009). Later, scholars suggested additional aspects influencing FDI decisions apart from factor costs or endowments. Hymer's Firm Specific Asset (FSA) theory and Dunning's OLI paradigm suggested that firms make FDI decisions when there are certain advantages for them in the host economy whilst they can exploit their own FSA or Ownership advantage (Dunning, 1988; Goldstein, 2007; Faeth, 2009).

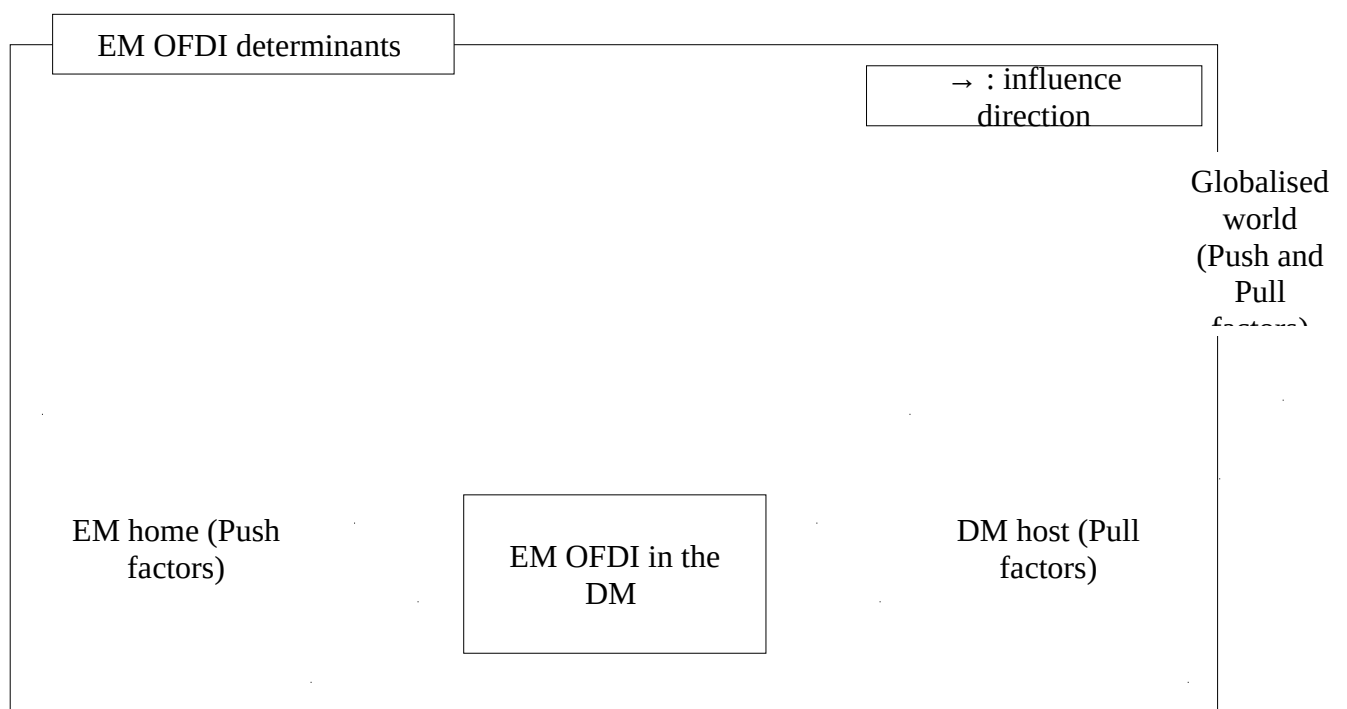
Following traditional FDI theories, determinants of FDI are mainly 'pull factors' of host location (assuming pre-existing Ownership advantage is in place). However, these theories may be incomplete when considering EM OFDI, particularly those to DMs. The most distinctive aspect of EM OFDI is that of EM MNEs' disadvantage rather than competitive advantage in the locational decision. Due to the relatively brief experience of OFDI, many EM MNEs are still at the 'fledgling' stage and therefore, lack their own FSA compared with their DM counterparts (Rugman and Verbeke, 2003; Ramamurti and Avenue, 2008). Moreover, some of the disadvantages that EM firms face come from their home market environment. As EM economies are often in the developing stage, an underdeveloped market

and related institutional structures are problems which are “hard to ignore” (Langlois, 2013, p.18). Another important distinctiveness of EM OFDI compared to their DM counterparts can be found in the external circumstances they faced at their initial stage, that of globalisation. Dramatic changes in International Relations, such as the collapse of Communism and international agreement over free trade deal (e.g., the Uruguay Round) intensified ‘globalisation’, ‘liberalisation’ and ‘de-regulation’ in many countries (Ramamurti and Avenue, 2008; Aharoni, 2014). Moreover, technology development, such as “the digitalisation revolution” and the invention of the ‘internet’, fuelled the ‘integration of the world’ even further (Ramamurti and Avenue, 2008, p.3). Therefore, globalisation was already an exogenous condition for many EM MNEs (Mathews, 2006). Globalisation can encourage EMs’ OFDI in two fundamentally different ways: firstly, by promoting OFDI from these countries through lifting of restrictions on trade or FDI and, secondly, by pushing EM firms to go abroad under intensified competition in their home countries due to the rapid globalisation movement and liberalisation pressure (Contractor, 2013).

These very different firm-specific characteristics and given circumstances from traditional DM OFDI have also influenced EM OFDI’s distinctive motivation and determinants from DMs’. Whilst traditional determinants of DM OFDI are mainly focused on the ‘pull factors’ of the host country, considering the ‘disadvantage’ derived from EM firms’ lack of ownership advantage and the home countries’ constraints on business, it can be assumed that ‘push factors’ from the home environment are as important as ‘pull factors’ in the analysis of EM OFDI. Moreover, for EM OFDI, the intensified globalisation works as another kind of important ‘pull’ and ‘push factor’. Therefore, in shaping a study on EM OFDI, this distinctiveness of EM OFDI from traditional investment needs to be reflected (e.g., Mathews, 2006; Luo and Tung, 2007; Peng *et al.* 2008; Ramamurti and Avenue, 2008).

Figure 1 demonstrates the fundamental framework of this study. As shown, in analysis of determinants of EM OFDI, it is assumed that both ‘pull factors’ from the host (the UK) and ‘push factors’ from EM home markets will influence EM OFDI activity, whilst the external environment (the highly globalised world) plays a significant role in EM OFDI. Within this framework, this study will address the main research questions by investigating what these push and pull factors are.

Figure 1. The fundamental framework of the study



Source: Author's figure

1.3. Summary of the chapter and structure of the thesis

As the last part of the introductory chapter, this section provides an overall summary and outlines the structure of the thesis. This chapter has introduced the main research subject – EM OFDI, with an overview of its recent trend and a review of its historical development and recent studies on it. The data and the historical review have shown that this phenomenon has

been growing rapidly and there is an increasing number of newly joining EMs within this group. However, the literature suggests that it is still a relatively ‘unexplored area’ and particularly EM OFDI to DM remains a topic fairly ‘unreached’.

Based on the investigation into the background of EM OFDI in general, this study proposed its research questions as examining the determinants of EM OFDI into the UK and the influencing factors behind subsequent investment decisions of EM firms in the UK. The main subject of this thesis’ research question, ‘EM OFDI to DM hosts’ has significance as it is 1) an unconventional phenomenon from the traditional perspective of FDI; 2) a still relatively unexplored subject in FDI studies, whilst 3) this phenomenon of EM OFDI to DM hosts seems to have a potential for growth considering the fast growing EM OFDI. The research question also brings both pre- and post-investment stages together into the analysis by including the analysis of the determinants of ‘subsequent investment decision’ following entry decision. Therefore, through examining this research question, this thesis can be important on academic grounds and for policy making by investigating this significant but unexplored subject and by providing a more complete picture of the phenomenon. This justification of the research question was followed by shaping of the fundamental framework for the study. This framework for addressing research questions regarding EM OFDI determinants was constructed, considering both the distinctiveness of the firm and home country specific context and of external environment that EM firms are facing (Figure 1).

This introductory chapter is followed by the main body of the thesis. Before proceeding to the next chapter, this section overviews the whole structure of this thesis. A typical structure of the thesis consists of introduction, theory, methodology, analysis and conclusion (Perry, 1998). However, this is “one way to structure a thesis...(which is)...widely used...(but it does not need to be)...universally accepted” as what a thesis needs is “a structure that meets the communication goals” of the thesis (Uncles, 1998, p.89-90). As this study aims at two

major in-depth analyses, it will also employ a plurality of analytical tools by selecting and employing the most appropriate methodology for each part of the study. Therefore, this thesis will have two parallel analysis chapters, each of which will consists of its own analytical framework, methodology and analysis result sections rather than having a methodology and an analysis chapter for the whole analysis. This kind of adjusted structure of thesis is supported by others too (Perry, 1998; Vitae, 2009). Figure 2 describes the structure of the thesis.

Ch1. INTRODUCTION	
Ch2. CONTEXTUAL BACKGROUND	
Ch3. THEORETICAL FRAMEWORK	
Ch4. METHODOLOGY: justification and overview of triangulation, panel analysis and case analysis	
Ch5. PANEL ANALYSIS: THE DETERMINANTS OF GREENFIELD EM OFDI INTO THE UK 5.1 Introduction 5.2 Hypothesis development 5.3 Panel analysis model and data 5.4 Analysis and results 5.5 Conclusions	Ch6. CASE ANALYSIS: INVESTMENT DECISION OF EM FIRMS IN THE WEST MIDLANDS 6.1 Introduction 6.2 Adjustment of the framework 6.3 Data collection 6.4 Analysis and results 6.5 Conclusions
Ch7. CONCLUSIONS: summary of the thesis and overview of contributions and implications of the study	

*Figure 2. The structure of the thesis*Source: Author's summary

To overview the structure briefly, the next chapter, chapter 2, is contextualisation chapter. This chapter sets the boundary regarding the definition of EMs in this study and the scenes regarding the UK and the West Midlands as a host. Chapter 3 is a literature review and

theoretical framework chapter. This chapter reviews traditional FDI theories and discusses whether new theories are required to build a theoretical framework for EM OFDI analysis. Based on this review and the discussion, a theoretical framework for this study's analyses is developed. The following chapter, Chapter 4, is an analysis of methodology. This chapter discusses justification not only of why individual methodologies (panel analysis and case analysis) were selected but also of the methodological triangulation approach used in this study. The methodology chapter is followed by two parallel analysis chapters as mentioned above. Chapter 5 addresses the sub-question, 'what are the determinants of EM OFDI into the UK?' by conducting panel data analysis. This chapter develops a model and variables, and this is followed by an analysis and discussions of the findings and analysis results. Chapter 6 analyses the sub-question, 'what are influencing factors of subsequent investment decision of EM firms within the UK'. To address the second sub-question, this study applies a qualitative method - case analysis. With a similar structure to Chapter 5, this chapter, whilst consolidating the findings from the first-part of the analysis regarding the entry stage determinants of EM OFDI at the regional level, develops propositions to investigate how these entry stage determinants affect EM firms' further investment decisions in the DM host country at the operational stage. Similar to Chapter 5, the rest of this chapter also deals with analysis and discussions on the findings. Lastly, Chapter 7 is a concluding chapter with a summary of the study, concluding remarks regarding the findings and discussions on the contributions of this research and implications for policy.

Ch.2 SETTING THE SCENE – BOUNDARIES AND SCOPE OF THE STUDY

Before proceeding to the main discussions concerning the theoretical framework development and analyses, it is important to ‘build a fence’ around key terms and to ‘set the scene’ of the research subjects (Perry, 1998, p.12). This chapter will determine what is meant by EMs and overview the recent pattern of IFDI to the UK and the West Midlands respectively.

2.1. Defining EMs

It was at the International Finance Corporation in 1981, when the concept of EM was initially introduced amidst an effort to promote the first mutual fund investments in developing countries (Khanna and Palepu, 2010, p.3). Thus, the first step to define EMs constructed a definition of ‘developing countries’. However, there is no “established convention for the designation of ‘developed’ and ‘developing’ countries”¹ in the UN system or elsewhere (UN, 2012, p.3). Consequently, although the term ‘Emerging Market’ has become a popular neologism appearing frequently in relevant sources, there is no precise definition of EM even in academic studies and thus the definition of EM varies in many cases often presuming this term arbitrarily (Khanna and Palepu, 2010, p. 3). Table 2 summarizes some frequently used criteria for defining EMs (*ibid*, p.4).

Table 2: Frequently used criteria for defining EMs

Category	Criteria
Poverty	Low- or middle-income country Low average living standards

1

UN Statics Devision page of ‘Composition of macro geographical (continental) regions, geographical sub-regions and selected economic and other groupings’, Footnote C, revised 31 October 2013, <http://millenniumindicators.un.org/unsd/methods/m49/m49regin.htm>

	Not industrialised
Capital markets	Low market capitalisation relative to Gross Domestic Product (GDP) Low stock market turnover and few listed stocks Low sovereign debt ratings
Growth potential	Economic liberalisation Open to foreign investment Recent economic growth

Source: Standard & Poor's; International Finance Corporation; Trade Association for the Emerging Markets; Mobius, J. M, Mobius on Emerging Markets (London; Pitman Publishing, 1996), pp.6-23 cited in Khanna and Palepu (2010)

Nevertheless, a few studies on EM OFDI suggest the common characteristics of EMs. Following Luo and Tung (2007, p.483), EMs are defined as those that recently experienced (1) radical structural change (e.g., liberalisation and globalisation); (2) rapid growth in their national economy, despite (3) their weak home institutions and therefore, (4) have promising potential for consistent development in the near future. Similarly, Khanna and Palepu (2010, pp.4-6) consider that EMs are economies which (1) are emerging due to their recent fast economic growth, (2) of which the level has risen enough to challenge developed markets as 'emerging competitors' whilst (3) their institutional structures including both market and other market supportive ones such as legal and government are underdeveloped. Based on the criteria suggested in Table 2 and these studies, EMs are characterised with regard to their 'newness' in contrast to the conventional incumbents and 'significance' recognised by those outside. At the same time, another agreed criteria for EMs is their development status, which is either '(still) developing' or 'transiting' (e.g., Andreff, 2003; Luo and Tung, 2007; Khanna and Palepu, 2010; Cuervo-Cazurra, 2012; Aharoni, 2014). This aspect is important in defining EMs as the constraints faced by these countries' relatively underdeveloped development status or going through radical transition provide a distinctive context for economic activities within, or from, these countries such as FDI (Cuervo-Cazurra, 2012). In

fact, these countries are still ‘emerging’ and have not ‘emerged’ completely yet due to the constraints (Andreff, 2003; Khanna and Palepu, 2010).

Here, the historical categorisation of EM OFDI waves can provide a useful criteria for the selection of EMs for this thesis. Although there is no consensus regarding ‘the emergence of the third wave of EM OFDI’, many studies agree that ‘new members’ of EM countries, which did not appear in the first two waves, have been increasingly joining EM OFDI (e.g., Andreff, 2003; Sauvant, 2005; Gammeltoft, 2008; Filippov, 2010). At the same time, some studies suggested that some successful performers from the second wave, mainly the NICs, need to be excluded from EM groups in discourses of EM OFDI due to their mature behaviours as FDI sources, which do not differ greatly from conventional DM OFDI’s (e.g., Andreff, 2003; Luo and Tung, 2007; Ramamurti and Avenue, 2008). In line with these studies, ‘EMs’ chosen for the most recent studies on EM OFDI have generally been ‘newly joining EMs’ following the second wave of EM OFDI. Amongst them, the most common are BRIC countries (e.g., Sauvant, 2005; Bertoni, *et al.*, 2008; Gammeltoft, 2008; Ramamurti and Avenue, 2008; Filippov, 2010; Gubbi *et al.*, 2010; Holtbrugge and Kreppel, 2012), with a substantial number of studies’ focusing on China (e.g., Deng, 2004; 2007; Child and Rodrigues, 2005; Buckley *et al.*, 2008; He and Lyles, 2008; Alon, 2010; Luo *et al.*, 2010; Wei, 2010; Wang *et al.*, 2012).

In addition, ‘returning Latinas’ or ‘transition economies’ could also be considered within this ‘new group of EMs’ (e.g., Andreff, 2003; Goldstein, 2007; IDB, 2009). Regarding the former, although Latin-American multinationals were pioneers of ‘the first-wave of EM OFDI’, this phenomenon was relatively insignificant in terms of both size and its ‘regional’ scope (see section 1.1.2.1). Moreover, the region experienced a ‘lost decade’ in the 1980s due to the ‘debt crisis’ in the region following Mexico’s 1982 default (IDB, 2009). This unfavourable macro-economic condition had a negative impact on FDI in the region,

affecting many firms which were heavily protected by their governments through ‘import substitution’ policies, which were popular in the region to build up ‘national champions’ (Goldstein, 2007, p.68; IDB, 2009). However, after the 1990s, when significant ‘market liberalisation’ had been undergone all over the world, “new multi-Latinas” started emerging (Krauss, 2007 cited in IDB, 2009, p.8). This new wave of OFDI from this region differed from that of the first wave and showed more similarities to the ‘newly emerging markets’ in terms of its ‘scope’ (e.g., ‘Global Latina’) and the characteristics (*ibid*).

In a similar context, ‘transition economies’ could also be included in this ‘new’ EM group. They are often considered to be related to ‘Third World’ countries rather than to DMs due to firstly their economic development status, which can be described as “not yet fully fledged post-industrial market economies” (Andreff, 2003, p.75); secondly, their significant institutional constraints caused by a lack of market supportive institution development under the planned economy system plus “fundamental and comprehensive...institutional transitions” from a communist to a capitalist system in these countries (Peng, 2003, p.275 cited in Peng, *et al.*, 2008 p.924; Aharoni, 2014). Therefore, these countries’ OFDI reflects a similar pattern to other EM OFDI’s.

Other candidate countries within ‘newly joining EMs’ in recent studies on EM OFDI include Israel (Ramamurti and Avenuew, 2008) and Turkey (Kaya, 2013). Note that these examples are neither exclusive nor a homogeneous group. However, one common aspect of these countries is that they closely meet the characteristics and criteria regarding EMs discussed at the beginning of this section. Whilst many of these EMs are recognised by their strong growth, they are still ‘new’ in the world market, including the FDI one, and face home country constraints due to their underdeveloped institutional structure. In this context, EMs in this thesis for the analysis of EM OFDI into the UK will be selected from this new group of EMs depending on the available data set for the analysis.

2.2. The UK as a host country

As a recipient of FDI projects in the EU, the UK has secured a leading position since 1997 based on data from European Investment Monitor, the database of multinational professional service firm Ernst and Young (Ernst and Young 2011; 2012; 2013). This database tracks FDI projects that have resulted in new facilities and the creation of new jobs in European countries (*ibid*, 2011, p.32). Regarding the numbers of the UK IFDI projects only, although there have been periods of decline over the past ten years, the most recent figure shows a return to an upward trend, rebounding from a drop in 2011 (Table 3).

Table 3. Total annual FDI projects secured by Europe's four largest recipients over the past ten years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
UK	453	563	559	685	713	686	678	728	679	697	6,441
France	313	490	538	565	541	522	529	562	540	471	5,071
Germany	110	163	182	286	305	390	418	560	597	624	3,635
Spain	119	121	147	212	256	211	173	169	273	274	1,955

Source: Ernst & Young's European Investment Monitor 2013 cited in Ernst and Young (2013)

Regarding source countries of IFDI to the UK, the significance of EM sources seems to have been growing. A UK House of Commons report (2011) noted that China was the second largest investor in the UK, behind only the US in 2009. In 2010, India and China created the 4th and 5th largest employment through FDI in the UK, more than traditional European investors such as Spain or France (Ernst and Young, 2011). This implies that EM OFDI in the UK is a substantial phenomenon, as some empirical studies show a high correlation between job creation and FDI projects (Hill and Munday, 1992 cited in Cook, 2013; Fallon and Cook, 2010). In the most recent years, China and India have retained their position as

one of the top 10 investors in the UK and in 2012, all the BRIC economies increased their investment in the UK compared with 2011 whilst traditionally-major-investors such as the US and Germany reduced theirs (Ernst and Young, 2013). Considering that studies on EM OFDI to DMs are still a minor part of FDI study and that even amongst these studies European DMs have not been dealt with in empirical studies, the UK, where EM OFDI seems to be a substantial phenomenon, can have significance as a DM host in this study.

The data reviewed so far demonstrate that the UK as a host has shown a strong performance in attracting IFDI projects including ones from EMs, at least in the European context. However, recent data suggest that the UK might lose its leading position to its competitors, particularly Germany. Compared to the IFDI project numbers to the UK, which have fluctuated, Germany's figure has shown a consistent upward growth for the last 10 years, narrowing the gap with the UK (Table 3). Moreover, in the '2013 UK attractiveness survey' of Ernst and Young (2013, p.7), the UK ranked second behind Germany amongst the most attractive European countries from potential investors for the subsequent periods (2014-2016). Therefore, although "staying ahead of Germany should not be the primary objective driving the UK's FDI strategy", understanding what determines IFDI to the UK will certainly benefit its IFDI policy to help maintain its lead in Europe (*ibid*, p.4). In this context, this thesis can provide useful policy implications for the UK as a host country by investigating the determinants of FDI projects into the UK from increasingly important FDI source EM economies.

In addition, recent UK data regarding FDI employment generation demonstrates that "more than 50% of employment generated in the UK from FDI is from companies which have already established a base in the UK and are either expanding or co-locating further investment at an existing site" (Ernst and Young, 2011, p.11). In consideration of this aspect, this thesis, of which the research scope is extended to expansionary investment decisions at

the post-investment stage, will have further policy implications in retaining, expanding and attracting IFDI projects.

2.3. The West Midlands as a host region

The analysis level of the second part study will be narrowed down to the regional level. Amongst the UK regions, this study has selected the West Midlands for the sample. The picture of this region in terms of attracting IFDI has been quite positive in recent years. Following Table 4, fDi Market data of the regional IFDI project distribution in the UK in 2011, the West Midlands ranks fourth, only one project behind the North West in third, with the largest increase in share of projects where almost half of the remaining regions experienced negative change compared with the previous year. The Ernst and Young data for 2012 in table 5 also demonstrates the increasing trend of IFDI projects to this region whilst it has kept its place amongst top five. Note that these two tables are based on different sources of data due to data availability, which brings limitations in encompassing data for interpretation (e.g., comparing the figures between 2011 and 2012 from the tables together). However, even with these data limitations, the clear picture here is that there is consistency in terms of the positive growth of the IFDI project numbers coming into the West Midlands region. Moreover, the 2013 perspective survey from Ernst and Young reported that the West Midlands was considered as the third most attractive region within the UK after London and the South East by existing and potential investors from all over the world (Ernst and Young, 2013, p.39). This result implies that excluding London and the South East, which are traditionally popular investment destinations, the West Midlands was viewed as the most attractive host region amongst the remainder. This further implies that the increasing trend of IFDI to this region is likely to continue for the near future. Therefore, this region can provide useful data for this thesis in exploring the influencing factors of FDI at a regional level.

Table 4. Regional destination of FDI projects in the UK in 2011, in relation to 2010

Region	The number of projects	Share of UK FDI projects (%)	Change on 2010 by %
South East	472	51	13
Scotland	88	9.5	-13
North West	64	7	-15
West Midlands	63	6.8	43
East Anglia	43	4.6	-49
South West	39	4.2	34
North	33	3.5	22
East Midlands	27	2.9	-3.5
Yorkshire and Humberside	42	4.5	7.7
Northern Ireland	27	2.9	-34
Wales	24	2.6	4.3
Total	922	100	

Source: fDi Market

Table 5. Regional destination of FDI projects in the UK in 2012, in relation to 2011

Region	The number of projects	Share of UK FDI projects (%)	Change on 2011 by %
London	313	45	-4
Scotland	76	11	49
South East	55	8	-34
West Midlands	50	7	32
North West	44	6	13
Wales	31	4	244
Northern Ireland	29	4	71
North East	26	4	8
Yorkshire	21	3	5
East of England	20	3	-23

East Midlands	17	2	-15
South West	15	2	-40
Total	697	100	

Source: Ernst & Young's European Investment Monitor 2013

In addition, as a host region for EM OFDI, the West Midlands provides a significant context – its strong manufacturing heritage (The Greater Birmingham LEP proposal, 2010). In fact, this region's modern development is closely interconnected with the 'industrialisation' of the world. Many significant developments related to the 'Industrial Revolution' occurred in this region (e.g., the world's first iron bridge; the first steam railway locomotive), and this heritage later led to the development of numerous manufacturing workshops in the region, whose goods were traded overseas as well as within the UK (Haynes, 2008). This region's industrial and economic development within the global context was intensified in the 20th century, when the automobile industry underwent dramatic growth. Strong global brands such as Singer and Jaguar at Coventry and Austin at Longbridge in Birmingham were established, and manufacturing industry including vehicles and engineering created a significant percentage of employment in the region (e.g., 64% and 30% of the jobs were based in vehicles and engineering in the mid-1950s and 20% of employment in the West Midlands Conurbation was linked to the car industry in the 1970s) (Spencer *et al.*, 1986; Church and Mullen, 1989 cited in Haynes, 2008). Although the region's heavy reliance on the manufacturing industry later transpired to be the major contributor to the region's sharp decline in economic development in the region as de-industrialisation occurred at the end of the 20th century, this region's strong connection to and heritage in the manufacturing industry may play an important role in EM OFDI's locational decisions. Considering EMs' main industry is still focused on manufacturing sector in general, this region's rich manufacturing

base may work as an attractive factor to EM FDI sources (Alon, 2010). In fact, Jaguar Land Rover and MG have attracted significant IFDI through M&A deals from EM firms, Tata Group from India and Shanghai Automotive from China respectively. These investors have been continuously doing business in this region and creating even more jobs through their expansion. Moreover, this region's cosmopolitan population composition can also be a strength in attracting EM FDI, as several studies suggest that the presence of ethnic groups has a positive influence on FDI locational decision in the case of EM OFDI (e.g., Chen and Chen, 1998). Therefore, this region can be a useful sample for the investigation of EM FDI to the UK at a regional level.

2.4. Summary of the chapter

This chapter has set the boundary regarding the definition of EMs in this study and overviewed the recent trend of IFDI to the UK and the West Midlands in order to evaluate the significance and implication of this thesis in the investigation of EM OFDI to these hosts.

Although there is no precise definition of EM, it seems that there are some common features agreed about EMs. 'Emerging' implies that they are 'new' and have significance enough for their emergence to be noticed whilst are not completely 'emerged' yet. To set a more specific boundary for the definition of EMs based on these discussions, this study applied 'historical categorisation of EM OFDI'. For analysis, this study decided to choose EM countries which are 'newly joining' to this EM OFDI wave after the second wave, but including 'returning Latinas', which show distinctive characteristics from those of the first wave, and transition economies.

Considering the data on IFDI projects into the UK and the West Midlands, both the country and the region seem to have been performing well compared with their competitors such as

other European countries and other UK regions, which brings justification of this thesis' exploring a significant phenomenon. Research on these hosts has significance which is worth exploring further in terms of the possibility of policy implication as well. At a national level, although the UK has been the most popular destination of FDI projects amongst Western European countries, its strong position is being threatened by Germany. Moreover, a significant percentage of the employment generated in the UK from FDI is from those at the operational stage. Therefore, this thesis investigating the determinants of both entry and expansionary investment decisions will have meaningful implications for relevant policies. At the regional level, the West Midlands region's industrial and economic development has been closely inter-related with its strong manufacturing heritage and heavy reliance on industry. Although this region's performance in attracting IFDI projects has been improving in recent years, understanding new sources of FDI (EM countries), where the manufacturing industry still has great significance, can provide useful insight for this region's policy development in various relevant areas such as economic, business or infrastructure development as well as FDI itself.

Having set the boundary of the research scope, the next step is to analyse what has been explored regarding the research theme and to build a theoretical framework for this study's analysis to investigate the research questions. The following chapter therefore explores the relevant literature and builds a theoretical framework for the analysis.

Ch.3 LITERATURE REVIEW FOR THEORETICAL FRAMEWORK DEVELOPMENT

3.1. Introduction

This literature review chapter aims "to build a theoretical foundation upon which the research is based by reviewing the relevant literature" (Perry, 1998, p.13). The purpose of the

summary of relevant studies on EM OFDI in Section 1.1.3 was to uncover any ‘gap’ which this study may address. Using this approach helped this study’s positioning in terms of general themes such as EM OFDI into DM, decisions on EM source countries and DM host, and also of the research questions. Having a general ‘context’ for the study, this section in building an appropriate theoretical framework considers the extant literature of not only in “the area of the immediate discipline/field of the research problem” (in this study’s case, studies on EM OFDI) but also the “parent discipline/field” (e.g., traditional FDI or IB literature; other business theories such as firm strategy) or other related academic discipline (e.g., Institutional theory) (*ibid*, p.13-14). Therefore, the literature review in this chapter serves as “a means to an end in identifying the worthy research issues” (Perry, 1988, p.13).

The rest of this chapter is structured as follows: firstly, Section 3.2. will review traditional FDI theories and how EM OFDI’s can be framed within traditional theories, which leads to the discussion on whether new theories are required to build a theoretical framework for EM OFDI analysis. Section 3.3 then aims at building a theoretical framework for the study. This section consists of several sub-sections: the first sub-section develops the distinctive characteristics of EM OFDI to DMs and introduces ‘Resource-Based View (RBV)’ theory adapted from EM firms’ perspective. This ‘adapted RBV’ will provide a fundamental framework for understanding EM firms’ motivations when they head towards DM hosts as the determinants of their FDI. The next sub-section, 3.3.2, discusses the importance of institutional theory in understanding EM OFDI and how this theory can be applied in the theoretical framework for this study’s analysis of the EM OFDI in DM host. Sub-section 3.3.3 builds a set of theoretical frameworks for each part of analyses to address each research question and sub-questions. The final section, 3.4, summarises the chapter.

3.2. Adjustment of traditional framework

3.2.1. Traditional theories of FDI

This sub-section opens with a review of traditional FDI theories in more detail and discusses how EM OFDI can be understood based on the traditional theories of FDI and whether new theories are necessary to build a theoretical framework for EM OFDI analysis. Since the emergence of MNEs and FDI in the 1960's, scholars have made efforts to understand why firms expand internationally rather than simply export, and what the motives and drivers of FDI decision making are and whether they differ by location (Nyuur, 2014; Surdu and Mellahi, 2014). Early studies based on Neoclassical trade theory tried to understand FDI as a part of international capital trade within the Heckscher-Ohlin model framework of 2x2x2 general equilibrium model, and therefore, the focus of FDI lay in country endowments and capital flows between two countries considering 'relative factor endowments and relative factor costs' as main determinants of FDI (Faeth, 2009). However, later studies on FDI considered the Neoclassical framework had limited ability to explain this phenomenon with its assumption of perfect competition, and therefore, attempted to build a framework where MNEs make investment decisions between home and host markets based upon 'structural market imperfections' (Kindleberger, 1969 cited in Faeth, 2009; Hymer, 1976; Dunning, 2001; Goldstein, 2007). In this context, FDI theories began to be developed from an IB perspective as well as International Economics perspective, focusing on MNEs and their foreign investment as a subject of business and strategy studies (Faeth, 2009).

Although the history of modern multinational firms can be traced back to the late 19th century, it was in 1960 that the term 'Multinational Corporation' was introduced by David Lilienthal (Kobrin, 2001). He defined Multinational Corporations as "corporations which have their home in one country but which operate and live under the law of other countries as well" and distinguished between portfolio and direct investment for the first time, by defining

the latter as “industrial or commercial operations abroad which directly involve...managerial responsibility” of these Multinational Corporations (Koblin, 2001 p.1, end note 1). Hymer’s work (1960; 1976) is also relevant here, though his argument is more focused on ‘why, direct investment’ over portfolio investment (p.23). He explained that the key determinants of the latter over the former was ‘control’, which was similar to, but goes beyond Lilienthal’s concept of ‘direct managerial responsibility’. “[C]ontrol is desired in order to appropriate fully the returns on certain skills and abilities” (*ibid*, p.23), and therefore, “the possession of advantage” (*ibid*, p.41) led to firms’ operations in a foreign country. This advantage was termed Ownership advantage or Firm Specific Advantage (FSA), which is “transferrable intangible assets” (Dunning, 2001, p.174) including economies of scale, product differentiation, managerial expertise or knowledge advantages such as new technology and patent (Goldstein, 2007; Faeth, 2009).

Since then, many scholars have developed this ‘Ownership advantage’ concept in FDI studies. Kindleberger (1969) and Hymer (1976), focusing on ‘market imperfection’ and firms’ ‘monopolistic advantage’, argued that firms invest in foreign markets to expand their market power by exploiting their FSAs in the hosts. Later Knickerbocker (1973) also developed the ‘theory of oligopolistic reaction’, explaining that MNEs tend to “follow the leader” in oligopolistic markets in their FDI decisions to maintain their oligopolistic advantage (Sethi *et al.*, 2002; Faeth, 2009). Dunning developed a more comprehensive framework regarding the ‘advantage’ concept within the Eclectic or OLI paradigm. Starting from Ownership advantage, he proposed that “US manufacturing affiliates in the UK should perform at least as well as their parent companies, and considerably better than their indigenous competitors” under the assumption of ‘Ownership advantage’ effect (Dunning, 2001, p.174). However, what he discovered was that the productivity of US affiliates in the UK was not as high as their parent companies’, although it was better than that of UK local

competitors, leading him to the ‘Locational advantage’ concept. It was a while later when he completed the OLI framework by including the ‘Internalisation advantage’ concept (Cuervo-Cazzura, 2012). The ‘Internalisation advantage’ concept began from the perspective of “why MNEs opted to generate and/or exploit their O specific advantages internally, rather than to acquire and/or sell these, or their rights, through the open market” (Dunning, 2001, p.175). This ‘internalisation’ concept was not completely new as Buckley and Casson (1976) had already developed a theory of the MNE applying Coase’s (1937) internalisation concept to MNEs (Dunning, 2001; Faeth, 2009; Buckley, 2014). Similarly, Hymer (1976) had the concept of internalisation theory within ‘imperfect markets’. His view was that in the case of intermediate goods markets such as production and marketing techniques or management skills, internalising these FSAs would certainly bring advantages to the MNEs when they invested in foreign countries (Faeth, 2009).

In these ‘traditional theories’ on FDI determinants, Ownership advantage has been considered as the key concept in explaining why firms go to foreign markets despite disadvantages such as uncertainty and liability of foreignness beyond the home boundary (Dunning, 2001; Goldstein, 2007; Faeth, 2009). In this context, Dunning (1993) himself also suggested various FDI motivations as natural resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking motivation. With Ownership advantage to exploit, firms invest in foreign countries to gain certain benefits from the host countries such as “natural, physical or human resources” (natural-resource seeking FDI), “domestic, adjacent or regional markets” (market seeking FDI), “the rationalization of production to exploit economies of specialization and scope across or along value chains, *i.e.*, product or process specialization” (efficiency seeking FDI), and even to “advance a company’s regional or global strategy or link into foreign networks of created assets, such as technology, organizational capabilities

and markets” (strategic-asset seeking FDI) (Dunning, 1980 cited in Faeth, 2009, p.171; Dunning, 1993).

In line with these studies which focus on FSAs as a major FDI determinant, other studies have tried to understand FDI from the MNEs’ strategic or behavioural perspective. For example, Vernon (1966) explained FDI within a product cycle framework. He argued that products go through certain stages of their life cycle, and depending on these product life cycle stages, firms gradually transit from a domestic exporting organisation to FDI (Goldstein, 2007; Cuervo-Cazzura, 2012). In addition, he also argued that firms expand their FDI location to foreign markets which have similar characteristics to their home markets before moving to those which differ from their home markets (Goldstein, 2007; Faeth, 2009; Cuervo-Cazzura, 2012). Vernon’s (1966) logic regarding the gradual transition from export to FDI and progression in locational decision, can also be found in the Uppsala model (e.g., Johanson and Vahlne, 1977) although the latter’s understanding of investment behaviour is within an organisational learning framework (Goldstein, 2007; Cuervo-Cazzura, 2012). The Uppsala model was based on the observation that “Swedish...(and other Nordic)...firms often develop[ed] their international operation in small steps...(e.g., initially exporting to a country via an agent and then moving on to establishing sales subsidiaries and production in the host country at a later date)...rather than by making large foreign production investments at single points in time (Johanson and Vahlne, 1977, p.24). In this model, the reason for firms’ incremental investment behaviour is ‘psychic distance’. Psychic distance is defined as “the sum of factors preventing the flow of information from and to the market” (*ibid*), i.e., “market-specific knowledge about the business climate, and characteristics of customers and country customs” (Newman, 2012, p.40). Therefore, the ‘psychic distance’ can be formed by “differences in language, education, business practices, culture, and industrial development” and the key assumption behind this term is that this ‘distance’ leads to uncertainty and risk in

the host (Johanson and Vahlne, 1977, p.24; Newman, 2012). These traditional theories and models which try to explain MNEs' incremental investment behaviour are also categorised as the 'incremental internationalisation process model' (Cuervo-Cazurra, 2012).

With a similar perspective, Dunning (1981) developed the 'Investment Development Path (IDP)' theory as an effort to apply his eclectic paradigm in relation to a countries' economic development stage and FDI (Dunning, 2001; Narula and Guimon, 2010). Although the focus of IDP theory lies in macroeconomics aspects, and therefore, its details differ from those of the theories above, which focus on firms' strategy and behaviour side, IDP theory also supports a gradual process of FDI. Based on this theory, a country with a poor economic development is unlikely to receive inward FDI (IFDI) or to undertake outward FDI (OFDI); however, as its economy develops, the country has increasing IFDI flows first, and then moves on to the OFDI stage (Narula and Dunning, 2010). The progress of OFDI of a country is also gradual from OFDI to regional hosts to those heading towards more international hosts (*ibid*).

Based on the review so far, FDI theory has been developed closely in line with the changes in the trend and characteristics of FDI in order to reflect a certain reality adjusted by this change (Aharoni, 2014). Here, when trying to apply traditional FDI theories (which have been developed based on conventional DM FDI activities), a similar approach may be required to develop a theoretical framework for understanding EM OFDI to DM host, as this new trend of FDI might demonstrate distinctive characteristics from DM FDI. Thus, the following section will explore how traditional theories has been applied to EM OFDI, and by doing so, discover whether these traditional theories are sufficient to understand EM OFDI to DMs, or whether new perspectives or adjustments are required to build a theoretical framework.

3.2.2. Understanding EM OFDI within a traditional framework

Although traditional FDI theories have been constructed based on the empirical evidence of DM OFDI in order to explain conventional FDI determinants and characteristics, some EM OFDI can also be understood within this traditional framework. These are mainly the so-called South-South investments and their pattern appears to follow closely the beginning stages of both IDP and Vernon's product lifecycle where substantial FDI inflows precede OFDI and initial outward investment of firms begins from host countries with environments similar to the home countries. As the IDP theory explains, these EM countries' South-South investment at the beginning stage of IDP attracted inward investment first, focusing on their Locational advantage prior to engaging in outward investment, due to their firms' lack of Ownership advantage which they can exploit in foreign markets (Narula and Dunning, 2010). As inward investment grew, domestic firms began to undertake outward investment (*ibid*). However, as these firms were still what Ramamurti terms 'infant' firms, government policies supportive to these firms at this stage was critical (Dunning, 2001; Narula and Nguyen, 2011). For example, EM countries from the first wave of EM OFDI, mainly in the Latin-American region in the 1960-70s, experienced fast-growing IFDI flows prior to any significant OFDI flows (Goldstein, 2007). As IFDI to these countries increased and their economies developed, OFDI from these countries also started to emerge. Moreover, behind the scenes, governments played a critical role in supporting their 'national champions' going global through 'import substitution policy' (Goldstein, 2007; Todaro and Simth, 2009). This movement of the first wave of EM OFDI was mainly limited regionally, as most of the OFDI targeted neighbouring countries with geography and characteristics approximate to their home. This was due to the ability of these EM MNEs to leverage their Ownership advantages which were limited to such an extent that they could exploit the advantages only in environments with similar conditions (Narula and Nguyen, 2011). This trend is also

closely in line with the beginning stage of Vernon's product lifecycle where firms start to export to and invest in the markets which have similar kinds of customers and characteristics to their home ones. Furthermore, the background logic of this trend also reflected the Uppsala model's 'psychic distance' concept.

Whilst the South-South investment of the second wave of EM OFDI, primarily intra-Asian EMs, also demonstrated similar patterns to those suggested by traditional theories as mentioned above (e.g., fast growing IFDI to the newly growing Asian developing countries prior to OFDI flows from these countries; East Asian firms' bilateral FDI flows within the region), the Asian MNEs' South-South investment demonstrated a more mature investment behaviour based on traditional FDI theories (Goldstein, 2007; Narula and Nguyen, 2011). For example, Asian firms from the second wave of EM OFDI started investing in less-developed developing countries other than their home countries, in order to access natural resources or cheaper labour whilst exploiting their better level of technology or other FSAs than those of the hosts (e.g., NIC firms' investment in the less-developed Asian countries for access to cheap labour) (Goldstein, 2007; Gammeltoft, 2008). This pattern is perhaps better understood in terms of conventional investment theory, such as the natural resource seeking or efficiency seeking motivation of Dunning's FDI motivation theory (Dunning, 1993). Furthermore, some studies have seen EM MNEs in developing market hosts as having a special kind of FSA compared to their DM counterparts in the context that EM OFDI in the developing country hosts can be understood within a traditional theoretical framework based on FSA theory (e.g., Sinha, 2005; Khanna and Palepu, 2006; Cuervo-Cazurra and Genc, 2011; Contractor, 2013). These studies view EM MNEs' experience from their home economy such as dealing with "demanding and price-sensitive customers", "challenging distribution environments" (Sinha, 2005, cited in Gammeltoft, 2008, p.3) or "institutional voids" (Khanna and Palepu, 2006, p.62) as a "valuable springboard rather than as

disadvantages” and certainly as a ‘comparative advantage’ over their DM rivals in developing country hosts where the ‘psychic distance’ is shorter for EM firms than for DM firms (Aykut and Ratha, 2004 cited Gammeltoft, 2008 p.3).

However, within the second wave of EM OFDI, some FDI destinations were to the North as well as the South, and this upstream investment was not a conventional trend observed in DM OFDI cases, and therefore, challenged traditional FDI theories. Mathews (2006, p.18) in particular pointed out that mainstream FDI theories miss out a category of firms “expanding abroad in order to access a resource that is otherwise not available”, which is increasingly to be found in upstream investments. Some ‘novel’ characteristics and behaviours including ‘upstream investments’ observed in the second wave of EM OFDI raised questions as to whether new theoretical approaches were required to understand the EM OFDI (e.g., Child and Rodrigues, 2005; Mathews, 2006; Luo and Tung, 2007; Wang *et al.*, 2012). In his comment regarding Mathews’ (2006) LLL (Linkage, Leverage, Learning) paradigm, which had been newly developed to explain EM OFDI analysis (see later), Dunning (2006) also agreed that his OLI paradigm had limits in explaining EM OFDI. As discussed earlier, to understand MNEs’ FDI activity IB and FDI theory have been changed by adapting new trends and changes in the FDI market as MNEs also actively “analyse the global environment, adapt and take advantage of new and changing circumstances” (Cuervo-Cazurra, 2012). Thus, in order to discuss theoretical adjustment and development for EM OFDI analysis, it is important to understand the differences within these newcomers (EM MNEs) and global environment they have been facing.

One key difference between EM OFDI and DM OFDI is ‘Ownership advantage’. Whilst the traditional FDI determinant theories argued that firms invest in a foreign country for the benefits from exploiting ‘Ownership advantage’ (by either maintaining a monopolistic position or internalising the FSA due to market imperfection), EM MNEs in general lack

their own FSA to exploit in foreign markets due to their relatively brief experience of OFDI (Lessard and Lucca, 2009; Rugman, 2009 cited in Aharoni 2014; Cuervo-Cazzura, 2012). This ‘lack of FSA’ issue is more likely the case in EM OFDI to DM as very few of these cases operate from “a position of global strength or from an assumption of dominance” (Contractor, 2013, p.311). Therefore, traditional FDI determinant theories focusing on FSA have difficulty in explaining EM OFDI to DM (Moon and Roehl, 2001; Goldstein, 2007; Gubbi, *et al.*, 2010; Cuervo-Cazzura, 2012; Aharoni, 2014).

Another important distinctiveness of EM OFDI to DM is that of its “non-sequential internationalisation” pattern (Goldstein, 2007, p.85). In contrast to the incremental FDI expansion from culturally similar or neighbouring countries to more distant ones, which is found in conventional DM OFDI patterns and suggested by traditional FDI theories, EM MNEs’ often choose countries that are “very different from the country of origin for the firm’s first internationalisation” as can be seen in the EM OFDI to DM case (*ibid*, p.87); they also often “exploit differences rather than similarities” in their foreign expansion (Cuervo-Cazzura, 2012, p.155). This FDI pattern of EM MNEs is a path-independent behaviour from the IDP perspective and radical behaviour from the Uppsala model perspective (Luo and Tung, 2007), which requires “additional insights as to the role of risk aversion in the internationalisation process” of MNEs to that suggested from traditional FDI theories (e.g., incremental internationalisation process models) (Cuervo-Cazzura, 2012, p.158).

The last distinctiveness of EM OFDI comes from the context of EM MNEs’ internationalisation, which are EM home country constraints and globalisation (Ramamurti and Avenue, 2008). Firstly, EM firms face constraints due to “poorly developed markets, and weak, non-existent, or dysfunctional institutions” in their home counties (Langlois 2013, p.18) and these constraints can work as ‘push factor’ FDI determinants. However, this kind of institutional context which defines firms’ strategies and decisions is often ignored by the

traditional FDI theories (Peng, *et al.*, 2008). Furthermore, in the case of EM OFDI to DMs, the distinctive institutional background between EM home and DM hosts may also have significance in the post-entry stage analysis. To investigate how institutional constraints can work as ‘push factors’ for EM OFDI and how the ‘institutional differences’ can influence EM firms’ FDI decisions, institutional theory may supplement what traditional FDI theory is missing when building a framework for this study’s analyses. Secondly, another important distinctive aspect of EM OFDI compared to DM counterparts can be found in the external circumstances they face at their initial stage – the ‘highly globalised world’ (Mathews, 2006; Cuervo-Cazzura, 2012; Gammeltoft, *et al.*, 2012; Aharoni, 2014). Globalisation has an influence on EM OFDI in several ways. It promotes EM OFDI through liberalisation policies in international business by lifting restrictions on trade or FDI (Ramamurti and Avenue, 2008; Aharoni, 2014); however, the liberalisation movement also intensifies competition in EM home countries at the same time (Contractor, 2013). Again, traditional theoretical frameworks may have limitations for understanding certain characteristics of EM OFDI influenced by its context and environment which are distinctive from that of conventional DM (Cuervo-Cazzura, 2012).

However, this does not mean that new theories are necessary for understanding EM OFDI or that existing theories are not useful, but that ‘adapted approaches by EM MNEs’ perspective’ are needed considering their “unique parameters and rationales” (Luo and Tung, 2007; Ramamurti and Avenue, 2008; Cuervo-Cazzura, 2012). Such an approach will rather enrich the existing theories by extending the scope of the research and providing dynamic perspectives (*ibid*). Considering these discussions, the following section will build a theoretical framework for the study. For this, a ‘Resourced-Based View’ theory adapted from EMs’ perspective together with Institutional theory will be applied.

3.3. Theoretical framework development

3.3.1. ‘Adapted Resource-Based View’ from EM MNEs’ perspective

The Resource-Based View (RBV) was originally developed to understand why firms’ performances differ, arguing that a firm is ‘a bundle of resources and capabilities’ and firms vary by “the selection and deployment” of these bundles depending on market imperfections (Penrose, 1959 cited in Cuervo-Cazurra and Genc, 2011; Wernerfelt, 1995 cited in Moon and Roehl, 2001; Oliver, 1997; Goldstein, 2007). Facing market imperfections and competitors who are trying to imitate other firms’ successful strategies, firms try to create “barriers to acquisition, imitation, and substitution of key resources” in order to maximise “the rent potential of resources” (Oliver, 1997, p.698). Therefore, the resource is the more precious when it is more “scarce, unique, inimitable, durable, idiosyncratic, non-tradeable, intangible and non-substitutable” (*ibid*), whilst ‘the bundle’ includes firms’ capabilities, which refer to “a firm’s capacity to deploy resources” (Moon and Roehl, 2001, p.198). Based on RBV, these valuable and rare resources (both tangible and intangible) are the ultimate source of the firm’s own competitive advantage and a firm’s ability to transfer key resources efficiently within the firm in a “less codifiable” way leads the firm to outperform its competitors (Wernerfelt, 1984; Barney, 1991; Mathews, 2006; Goldstein, 2007; Chang and Rhee, 2011; Wang *et al.*, 2012).

In this context, some scholars argue that the RBV is closely in line with conventional FDI theories on Ownership advantage and internalisation of the FSA, as the ‘resources’ can be seen as the FSA and the capabilities can be seen as the “internalisation capability” in the conventional FDI theories (Moon and Roehl, 2001, p.198). In understanding FDI from an RBV perspective, firms with ‘slack resources’, which can “function as a buffer against internal and external pressures...(and various risks)...and facilitate strategic behaviour”, may generate “enough monopolistic competitive advantages to overcome the liabilities of

foreignness” in the host (Chang and Rhee, 2011, p.982). Therefore, FDI can be a strategic means for the firms to appropriate rents in overseas markets by exploiting these advantages (Wang *et al.*, 2012, p.462). To this end, a firm’s efficient transfer of valuable resources within the firm in the process of FDI, which is a complex deployment of resources, is critical to sustain its competitive advantage and to survive in the host country (Sarala and Vaara, 2010; Chang and Rhee, 2011). In this context, this ‘RBV approach’ is compatible with “subsequent theoretical developments” of conventional FDI theories on Ownership advantage and internalisation capacity (Wernerfelt, 1984 cited in Sethi *et al.*, 2002; Conner, 1991; Dunning, 1993; Wang *et al.*, 2012).

However, at the same time, the RBV emphasises the strategic importance of the selection and deployment of resources in a dynamic and evolutionary way, compared to traditional FDI theories which see Ownership advantage as rather “static constraints” of the firm (Oliver, 1997; Moon and Roehl, 2001, p.198). In this way, applying the RBV theory to FDI studies can extend the theoretical ground for the EM OFDI analysis, for which traditional FDI theories may find limitations in providing an appropriate framework, by understanding that EM firms can evaluate and access resources *i.e.*, the selection and deployment of resources, differently from conventional DM firms (Mathews, 2006). In a similar context, Gammeltoft *et al.* (2012) also suggest that EM OFDI can be interpreted as EM firms’ strategic process of establishing “fit” between the resources and the environment given to EM firms. Here, ‘fit’ is brought about through “alignment of organisational resources with environmental opportunities and threats”. The adapted RBV from EMs’ perspective can therefore provide a more specific theoretical framework for investigating EM firms’ evaluation of, and access to, resources under the given environmental opportunities and threats, which differ greatly from those of conventional DM firms’. Here, the term ‘adapted’ reflects a distinctive application of the RBV from the EMs’ perspective. With similar approaches to this study, *i.e.*,

emphasising the ‘distinguished’ view of EM OFDI towards ‘resource’, other studies also suggested terms such as ‘a recent RBV’ (Mathews, 2006) or ‘an extended RBV’ (Goldstein, 2007) implying that their interpretation and application of RBV theory is differentiated from the traditional one.

The most distinctive characteristic of EM OFDI is ‘disadvantage’ caused by ‘lack of FSA’, home country constraints and intensified competition at home markets due to radical liberalisation and globalisation process. This aspect reveals the limits of traditional FDI theories in explaining EM OFDI as these theories assume ‘advantage’ is the key determinant of OFDI. Therefore, Moon and Roehl (2001), who tried to understand some ‘unconventional FDI’ motivated by ‘ownership disadvantages’ rather than determined by ownership advantages focusing on an ‘imbalance concept’, could provide a useful perspective to this study. The ‘imbalance’ concept was introduced by Penrose (1959), who argued that firms face imbalances in the process of building up their FSAs, and in the process of adjusting this imbalance of FSAs, “whether it is caused by advantages or disadvantages”, firms may choose to “go abroad if the firm cannot balance its strategic assets effectively in the firm’s home country” (Moon and Roehl, 2001, p.209; Cuervo-Cazurra and Genc, 2011). Based on this concept, Moon and Roehl (2001) had demonstrated how unconventional FDI can be motivated by ownership disadvantages in comparison to conventional FDI motivated by ownership advantages. Table 6 illustrates their comparison between these two forms of FDI regarding the motivations.

Table 6. Motivations of different types of FDI

			Conventional FDI (Ownership Advantages)	Unconventional FDI (Ownership disadvantages)
Market related motivation			Conventional advantages (e.g., technology, capital)	Small home market
Key	resource	related	Conventional advantages	Lack of key technology or

motivation	(e.g., technology, capital)	resources
Oligopolistic reaction	Leader	Follower
	Conventional advantages (e.g., technology, capital)	Competitive threat
Risk diversification	Financial reason	Political reason
	Surplus capital	Political instability
Locational Advantage (image of Country of origin)	Good home image	Bad home image

Source: Moon and Roehl, 2001, p.200

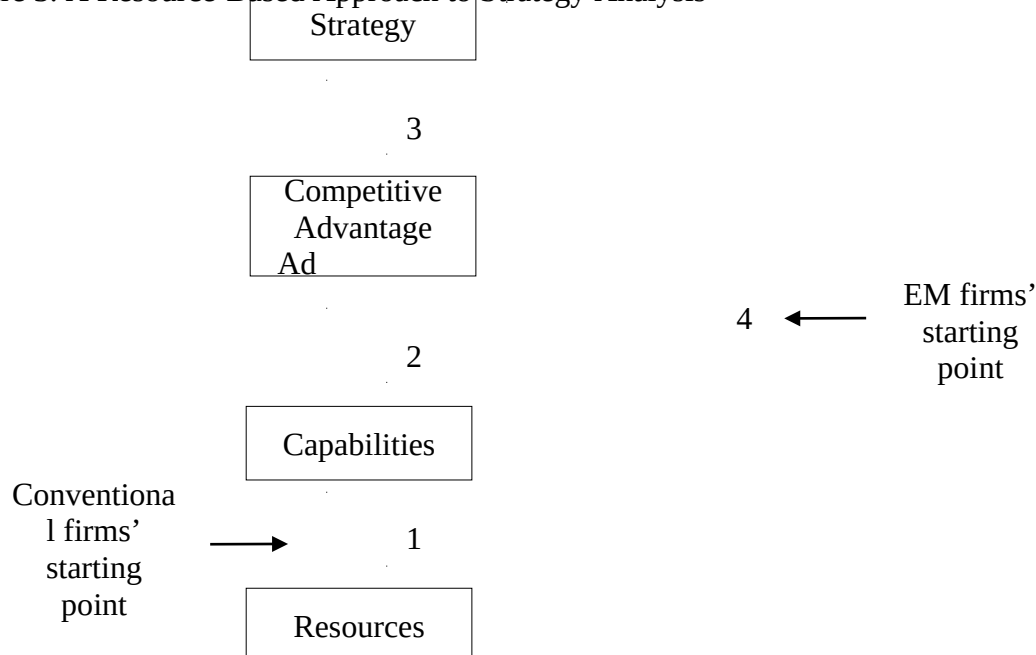
Questions addressing FDI motivation intrinsically are the ‘why’ question of FDI. However, as can be seen in Table 6, FDI motivation from a conventional perspective is already decided as ‘their ownership advantage’. The question regarding ‘why FDI?’ is more fundamental for the ‘unconventional FDI’ with disadvantages including absence of key resources and home country constraints than for the conventional one as this phenomenon requires more theoretical explanation of the motivation behind the FDI despite these disadvantages. What Moon and Roehl (2001) argued further was that RBV by focusing on an imbalance concept can provide the theoretical explanation of the motivations of the unconventional FDI as described in Table 6. In the case of unconventional FDI, the firms’ lack of key resources or FSA will cause imbalance among their strategic assets whilst the unfavourable home market circumstances will deter the firms from dealing with the imbalance effectively. Therefore, these disadvantages will ‘push’ them to go abroad. They also suggested that the ‘competitive threat’ firms face in their home markets along with their ‘follower status’ in the competition they face other possible ‘disadvantages’ which cause imbalance and motivate the firms to go abroad. This study’s analysis of EM OFDI to DMs can be categorised as this ‘unconventional FDI’ and the disadvantages here closely correspond to those of EM OFDI, which are what this study assumed to be ‘push factors’, i.e., lack of FSA and

market/institutional constraints. In addition, another important context of EM OFDI is the ‘highly globalised world’ and ‘radical liberalisation of EM home markets’. Although globalisation may promote EM OFDI through liberalisation policies, the same liberalisation movement also intensifies competition in EM home countries at the same time (Contractor, 2013). In particular, for the EM firms’ case, liberalisation in their home markets may have exposed them to intensified foreign competition when they, and the market *per se*, were still vulnerable to competition (Aharoni, 2014). Moreover, in the adapted RBV framework for the analysis of EM OFDI, EM MNEs see the global FDI market from the ‘latecomers’ perspective (Mathews, 2006; Luo and Tung, 2007). Again, the ‘follower status’ is another kind of disadvantage discussed above. In this way, globalisation works as another ‘push factor’ of EM OFDI. Therefore, based on this adapted RBV approach, this study’s assumption that the disadvantages EM firms are facing within themselves and in their home markets can be FDI determinants as push factors is supported.

These arguments are further supported when adopting the RBV approach to strategy analysis from EM firms’ perspective. The RBV views ‘slack resources’ as crucial for firms’ performance and long-term survival (Bromiley, 1991; Tan and Peng, 2003 cited in Chang and Rhee, 2011; George, 2005). Given this perspective, Grant (1991) described the cycle of firms’ resource selection, deployment capability assessment, competitive advantage building and strategic choice such as FDI by applying the RBV approach to strategy analysis. Grant (1991) argued that this cycle continues as the strategy stage involves “identify[ing] resource gaps which need to be filled” and “invest[ing] in replenishing, augmenting and upgrading the firm’s resource base”, leading the cycle back to the resource selection stage (p.115). Following these arguments, EM OFDI to DMs can also be understood as EM firms’ strategic choice to access and retain resources required for their performance and survival. The difference of this phenomenon from the conventional understanding is that EM firms start

from filling resource gap and augmenting their resource base, *i.e.*, the last stage of Grant (1991)'s cycle, as these firms lack pre-existing resources or competitive advantages whilst DM hosts are generally assumed to be superior to EM home countries in terms of resource availability or competitive advantage level. Figure 3 is the author's edited version of Grant (1991)'s figure of a framework for strategy analysis based on the RBV approach with comparison between DM OFDI' and EM OFDI' starting points incorporated.

Figure 3. A Resource-Based Approach to Strategy Analysis



Source: Grant, 1991, p.115; author's adaptation

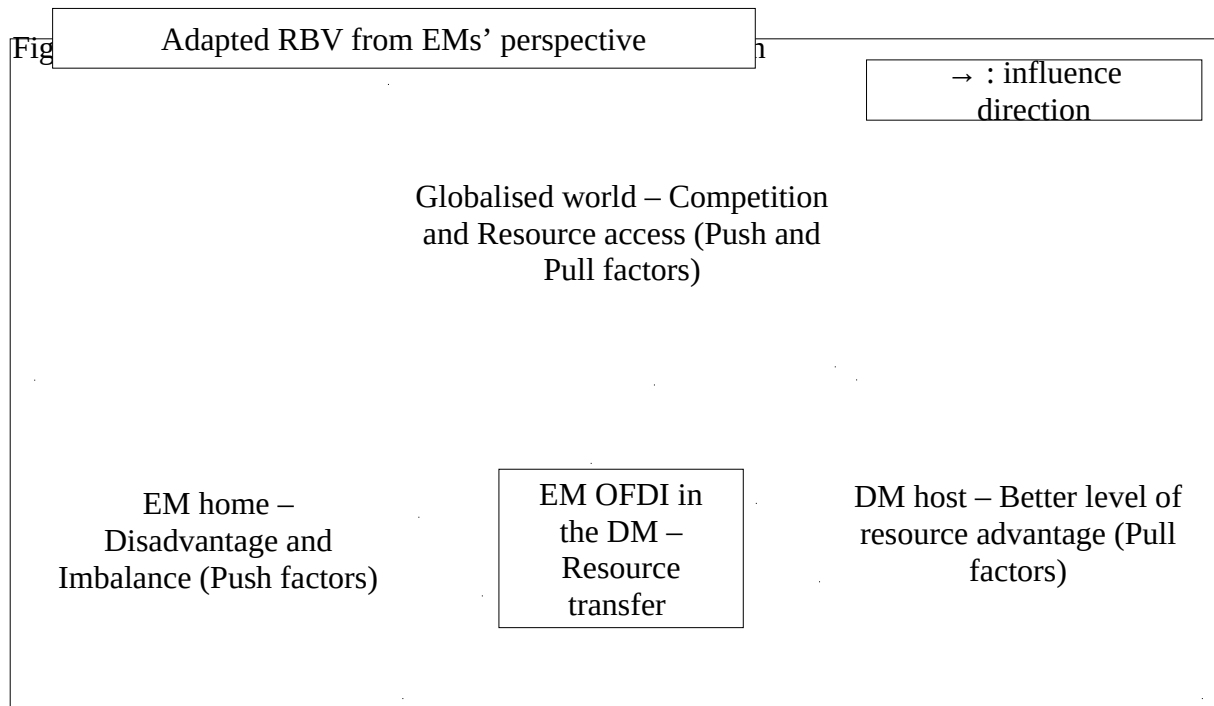
As discussed so far, the adapted RBV from EMs' perspective provides the theoretical framework for understanding the 'push factors' aspect of EM OFDI motivation. However, Mathews (2006, p.16), by defining 'internationalisation' as "the process by which firms become integrated in international economic activities", suggests that in understanding the 'integration' process fully both push and pull factors are important for a "comprehensive formulation". Therefore, in order to see the whole picture of EM OFDI to DMs, understanding the 'pull factors' as well as 'push factors' is important, and for this, again the

adapted RBV provides a useful standing point. There are some recent studies which directly focus on EM OFDI cases within this kind of adapted or adjusted RBV framework from EMs' perspective. These studies argue in a more straightforward way regarding EMs' distinctive strategic perspective of resource that "the RBV sees foreign expansion as a means by which firms can appropriate rents in overseas markets...(not only)...by exploiting...(but also)...exploring valuable resources" (e.g., Mathews, 2006; Deng, 2007; Wang *et al.*, 2012, p.462).

Here, globalisation, the key external circumstance of EM OFDI, again plays a significant role. As discussed above, in the adapted RBV framework for the analysis of EM OFDI, EM MNEs view the global FDI market from a 'latecomers' perspective. From this position, the 'highly integrated world market' is already an exogenous condition, and therefore these firms can see the world market as a "pre-existing" place full of resources into which they "can tap" (Mathews, 2006, p.16, p.8-9). In this context, EM MNEs' involvement in OFDI can be understood as a "latecomer's catching-up strategy" (Gerschenkron, 1962 cited in Mathews, 2006). Applying Grant (1991)'s strategy analysis within an RBV approach to EM OFDI, this study has already argued that EM OFDI can be understood as EM firms' distinctive strategic choice to fill resource gaps and augment their resource base. Similarly, the 'latecomer's catching-up strategy' concept also explains EM OFDI, in that latecomers (EM firms) that lack FSAs value resources which they themselves do not have because of 'accessibility', 'imitability' and 'transferability' (Mathews, 2006; Goldstein, 2007). Therefore, regarding "a highly integrated world as their market from the outset" (Mathews, 2006, p.9), EM MNEs' 'resource transfer' direction turns to the external rather than internal to "access a resource... that is otherwise not available" for "accelerat[ing] their internationalisation" to catch up the incumbents in the global market (Mathews, 2006, p.18). This also helps them to avoid the home market competition which is intensified by globalisation (Child and Rodrigues, 2005; Deng, 2007; Ramamurti and Avenue, 2008). Following the arguments within the 'adapted

RBV' framework so far, 'the globalised world' works as a pull factor for EM OFDI as well as a push factor, because 'resource access and transfer from outside' become important motivations for EM MNEs to go abroad as part of their 'latecomer's catching-up strategy'. This argument is particularly persuasive for the EM OFDI to DMs as the latter is generally assumed to have more abundant and better quality resources than EMs.

The adapted RBV from EMs' perspective, therefore, provides a useful insight for building a more specific theoretical framework to understand the determinants of EM OFDI to DM than the one outlined in the Introduction chapter (Figure 1). Figure 4 is the modified version of the theoretical framework with the 'adapted RBV' approach. When applying the 'imbalance concept' developed from RBV to FDI study, not only ownership advantage but also 'disadvantages' firms face can be a motivation for the OFDI as a way to deal with the imbalance problem caused by disadvantages. Within this framework, the disadvantages EM firms face such as 'lack of FSA' issues and home market constraints can be assumed to be determinants of EM OFDI as push factors. At the same time, when EM firms start actively joining in global FDI market, rapid globalisation movement becomes a given external condition. Within the 'adapted RBV' framework from EM firms perspective, EM MNEs are assumed to see the world market as latecomers who need to catch up with this fast 'integration' process, whilst dealing with intensified competition at home market to the same globalisation. Therefore, as latecomers, EM MNEs see the world where abundant resources, which are generally lacking in their own firms and home market, are accessible as a result of globalisation and liberalisation. Within this framework, the globalised world can motivate EM OFDI as both pull and push factors. Lastly, the assumption regarding 'resource access and transfer' is even more persuasive for EM OFDI to DMs, as DM hosts' more advanced level of resource and competitive advantage will be strong pull factors attracting EM MNEs seeking for resources.



Source: Author's figure

This theoretical framework of 'adapted RBV' is further enhanced by EM MNEs' radical and risk-taking behaviour in their OFDI activities. Based on the traditional FDI theories, EM MNEs within the RBV framework are assumed not to have any strong motivation for FDI due to their own lack of FSAs and even if they do, the OFDI development would be incremental and gradual. Similarly, original RBV also sees that firms without enough 'slack resources' would not take risky decisions such as FDI and even if they did so, their behaviour would be very cautious (Chang and Rhee, 2011). However, in contrast to these conventional expectations, EM OFDI is a fast growing phenomenon and EM MNEs' locational choice is often very radical and risky. EM OFDI to DM is one good example, as this expansion is far from 'gradual', despite the 'psychic' and geographical distance between EM home and DM host. Furthermore, this kind of 'upstream investment' is risky as EM firms usually do not possess any "global strength" or "dominance" over DM hosts (Contractor 2013).

In a similar context, some studies have developed models to understand the distinctive aspects of EM OFDI as an EM MNEs' strategy within an 'adapted RBV' framework such as Mathews (2006)'s 'LLL (Leveraging, Linking and Learning) paradigm' or Luo and Tung (2007)'s 'Springboard' perspective. Both of these models are not completely compatible with this study as their sample EM countries (NICs in Mathews, 2006 vs. new EMs in this study) and their cases (general EM OFDI in both studies vs. EM OFDI to DM case only in this study) differ from this thesis'. However, these studies' processes for developing models with specific propositions regarding EM MNEs' behaviours and strategies will provide useful insight for this study's development of models with specific hypotheses and propositions for the analyses within the same framework.

Mathew (2006)'s LLL (Linkage, Leverage and Learning) paradigm is an alternative paradigm of internationalisation strategy for the EM MNEs, who are latecomers and newcomers, to Dunning's OLI paradigm for DM incumbents. Here, Linkage is the internationalisation strategy of latecomers and newcomers through which they utilise the globalised world for resource access to accelerate their integration into the world market. Leverage is a decision strategy on how to access the necessary resources *i.e.*, "the ways that links can be established with incumbents or partners so that resources can be leveraged" (p.19) and Learning results from "repeated application of linkage and leverage processes" (p.20). Leverage and Learning strategy explains many EM MNEs' 'recursive' behaviour in that they acquire comparative advantages externally so that they can fight back against competition at home or in different host markets (*ibid*). Luo and Tung (2007)'s Springboard perspective also provides a very similar understanding to the LLL paradigm's regarding EM MNEs' internationalisation strategy. This framework explains EM MNEs' radical and path-independent behaviours such that "EM MNEs systematically and recursively use international expansion as a springboard to acquire critical resources needed to compete more effectively against their global rivals at

home and abroad and to reduce their vulnerability to institutional and market constraints at home” (*ibid*, p.484).

Bearing these two approaches in mind, within the ‘adapted RBV framework’, this study also assumes that the motivations of EM MNEs investing in DM hosts are mainly focused on ‘accessing resources which they lack in their home economies and which are assumed to be more abundant in DM hosts’ to resolve the imbalance caused by disadvantages from their own firm and home conditions, and to catch up the process of ‘integration into the world’ as latecomers. In this context, this study develops hypotheses regarding the determinants of EM OFDI into the UK closely related to the ‘resource access’ strategy in the first part of its analysis whilst linking these distinctive motivations regarding resources from the pre-investment stage to the EM firms’ operation in the UK in the second part of the analysis. As strategy is defined as “the match an organisation makes between its internal resource and the opportunities and risks created by its external environment”, it can be assumed that further investment decisions of EM MNEs, which came to the UK to access and transfer resources they need, will depend on how effectively these firms achieve their original motivation regarding resources in the host (Hofer and Schendel, 1978 cited in Grant, 1991, p.114). In this way, the RBV framework adapted for the analysis of EM OFDI determinants at the entry stage, will also provide a useful framework for the analysis of any further investment decision after the initial move to the UK.

In order to consider what actual ‘resources’ EM MNEs aim at accessing, how EM home country constraints matter for EM MNEs and the detailed process of linkage between pre- and post-investment stages, this study applies ‘institutional theory’ within this theoretical framework. Dunning (2006), one of the prominent FDI scholars, also suggests developing traditional FDI theoretical framework including his OLI paradigm further in order to understand EM OFDI better by including institutional aspects such as “the institutional

capabilities of firms and the incentive structure and enforcement mechanisms of home and host countries” which affect EM MNEs’ perspective and activity regarding resources. Therefore, the following section will provide an in-depth discussion regarding how institutions matter for EM OFDI cases and how institutional theory can be applied to the theoretical framework for this study.

3.3.2. Importance of institutional theory in EM OFDI study

A growing number of recent FDI studies, including those on EM OFDI, have considered institutional effects in their FDI analyses on various subjects. For example, there have been studies regarding institutional influences (1) on firms’ strategies at the entry stage such as locational decisions and entry mode (Xu and Shenkar, 2002; Xu *et al.*, 2004; Buckley *et al.*, 2008; Dunning *et al.*, 2008; Peng *et al.*, 2008; Yamakawa *et al.*, 2008; Schwens *et al.*, 2011) and (2) on those at the post-investment stage in the host, such as MNEs’ performance, embeddedness and strategies at the operational stage (e.g., Kostova and Zaheer, 1999; Matten and Geppert, 2004; Li and Yao, 2010; Clark and Geppert, 2011). The effect of institutions and the significance of institutional theory can have particularly important implications in EM OFDI cases. When Dunning (2006) emphasised the increasing institutional influence on FDI, it was in his comment regarding the new framework for EM OFDI studies, the LLL paradigm of Mathew’s (2006), and he suggested Mathews (2006) consider incorporating institutional aspects into this new paradigm as the dimension is particularly significant for Third World MNEs, *i.e.*, EM MNEs (p.3-4). In addition, some scholars such as Peng *et al.* (2008) and Yamakawa *et al.* (2008) argued that institutional aspects such as “wider and higher societal-level influences from sources such as the state and society” need to be taken into account to “address a complex phenomenon such as new ventures’ internationalisation from...(EMs to DMs)” (Yamakawa *et al.*, 2008, p.65). These arguments lead therefore to the

conclusion that institutional theory can provide a useful insight in studies regarding EM OFDI. The following sub-sections will review these aspects in more detail by investigating how the institutional aspects matter for EM OFDI, and in turn how institutional theory can have significance for the analyses on EM OFDI to DMs in this study.

3.3.2.1 Significance of Institutions in EM OFDI

Institutions have a great significance in understanding EM OFDI for several reasons. Firstly, one of the major reasons can be found in EMs themselves. Since these markets' entrance onto the world stage, which seemed to belong only to DMs until then, institutions have become regarded as a useful tool for understanding the new players. This is because the profound differences between EMs and conventional DM players result largely from 'institutional issues'. Institutions are usually created and characterised depending on the "given lumpy indivisibilities" of each country, and they in turn "shape the direction of long-run economic change" in those countries (North, 1990, p.16). For example, for DMs, where "markets work smoothly", the market mechanism or more broadly, market-institutions, are key factors in their economy, whilst other institutional factors are considered as "almost invisible" or just a "background" (Peng *et al.*, 2008, p.922). However, in EMs where "inefficient forms of exchange" are common in markets, "the absence of...institutions is conspicuous" (North, 1990 p.11; McMillan, 2007 cited in Peng *et al.*, 2008, p.922). Therefore, following North (1990), it can be assumed that institution creation in these countries is influenced by this condition.

Current interest in institutions related to EMs has been initiated by recognition of 'underdeveloped market and related institutions' in those markets. More recently, this recognition has developed into a realisation of the necessity of bringing institutions from the

background to the main stage when discussing EM issues to supplement traditional market theories which have been developed under a “discipline of the competitive market” assumption (North, 1990 p.11; Acemoglu *et al.*, 2004; World Bank, 2005; Rodrik, 2006; Demetriades, 2008). These issues were particularly relevant in the globalisation and liberalisation context. Once developing markets and transition economies started joining the global market, and particularly, after the 1980s’ debt crisis in these economies, neoliberalism, derived from neoclassical economics emphasising the critical role of the market, gained influence (Aharoni, 2014). The neoliberal assumption was that the institutional structure in these economies was not ‘liberal’ enough to encourage the market to play its ‘magical role’, and therefore, ‘radical institutional transformation’ through market liberalisation policies was required in these economies (US president Reagan’s reference in Cancun, Mexico in 1981 cited in Todaro and Smith, 2009; Kiely, 2007). Supported by the West and influential international financial institutions such as the World Bank and the International Monetary Fund (IMF), market liberalisation policies were promoted as the ‘solution’ for developing and transition economies throughout the 1980s and 1990s (Rodrik, 2006; Kiely, 2007; Todaro and Smith, 2009; Aharoni, 2014). Many EMs therefore, have been experiencing radical institutional changes through policies as a part of the globalisation and liberalisation process. Although these globalisation and liberalisation movements affected DMs as well as EMs, the latter tend to have more “fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect firms as players”, as their domestic market reforms were more radical than those in the former (Peng, 2003, p.275 cited Peng *et al.*, 2008 p.924). Moreover, these were often the result of external pressures exerted from international financial institutions or the West (Rodrik, 2006; Yamakawa *et al.*, 2008; Todaro and Smith, 2009). However, at the same time, “institutional development is a complex and lengthy process shaped by a country’s history, political and social systems, and culture...(and

therefore),...[d]ismantling government intervention and reducing barriers to international trade and investment...do not immediately produce well-functioning markets” (Khanna and Palepu, 2010 p.13). Thus, understanding EMs fully requires understanding of the institutional dynamics in these countries, and in this context, institutional theory can provide a valuable insight into understanding “the complex and rapidly changing relationships” between the institutional environments and firms strategic activities such as EM OFDI (Peng *et al.*, 2008, p.922).

Secondly, institutions have a great significance in understanding EM OFDI, because institutional constraints and government influence in their home countries shape a large part of this phenomenon. In EM OFDI, their governments’ role has been critical since the beginning of the first wave of EM OFDI (Gammeltoft *et al.*, 2012). This study has already indicated how differing government policies in the Latin-American and East Asian regions, *i.e.*, import-substitution and export-orientation respectively, had different effects on their EM OFDI. In addition to this kind of direct influence, government policy can also have influence in developing formal institutions. As North (1990, p.16) states, “[i]nstitutions are...(often)... created to serve the interests of those with the bargaining power to devise new rules”, and in fact, many EM governments create and arrange institutions depending on the unequal bargaining power between various agents rather than in a way to “facilitate the functioning of markets” (Khanna and Palepu, 2010, p.6). Studies on FDI suggest that “the munificence of a firm’s home country institutional environment has significant implications for its success internationally” (Li and Yao, 2010 p.3). Therefore, it is not difficult to assume that the home country institutional environment of EMs, which often work as institutional constraints for their firms, will affect their performance in the FDI market (Gammeltoft *et al.*, 2012). In a similar context, both Luo and Tung (2007) and Khanna and Palepu (2010) pointed out that ‘EMs’ weak home institutions’ and ‘EMs’ poorly developed institutional structures including

both market and other market-supportive ones, such as legal and governmental, are one of the key conditions which defines EM. Khanna and Palepu (2010) further argued that the institutional voids in EM are what render a market still “emerging”. For example, some EMs, such as the United Arab Emirates (UAE), cannot be categorised as a DM despite their high ranking amongst the world’s economies by per-capita Gross Domestic Product (GDP) due to their market structure which suffers from institutional constraints (*ibid*).

This aspect is important in EM OFDI, as these institutional constraints can work as disadvantages for EM firms which motivate or push them to go abroad. The institutional voids are “a prime source of the higher transaction costs and operating challenges” in EMs (Khanna and Palepu, 2010, p.6), and moreover, the inefficient institution creation and arrangement, depending on bargaining power, often results in other political cost and risk such as corruption or political instability (Gammeltoft *et al.*, 2012). These home country institutional constraints deter EM firms from effectively dealing with the imbalance amongst their strategic assets caused by their lack of key assets or resources, as already discussed (Table 6 in Section 3.3.1). Therefore, institutional theory can provide the theoretical groundwork for understanding the process of how these institutional constraints in EMs as disadvantages influence EM OFDI.

Lastly, institutional theory has great significance in understanding EM OFDI to DMs. This is due to the substantial institutional difference between these two markets. One of the critical interests in FDI theories lies in the ‘distance’ or ‘difference’ between home and host countries as this is an activity carried out in ‘transnational’ or ‘multinational’ space (Morgan, 2001). From the institutional theory perspective, MNEs are understood as “social constructions... built out of specific national institutional contexts”, and therefore, when this theory is applied to IB or FDI studies, questions are often formed regarding the institutional duality between the home and the host context of the MNEs (*ibid*, p.1). This ‘institutional duality’ has a

particular implication in the EM OFDI to DM case considering the significant difference in their institutional settings (Gammeltoft *et al.*, 2012).

Issues of the gap or difference between home and host countries in FDI have already drawn attention from scholars, and frameworks regarding this perspective such as the Uppsala model's "psychic distance" or the concept of "liability of foreignness" have already been developed (Johanson and Vahlne, 1977; Goldstein, 2007). It is not difficult to assume that firms investing in foreign countries will face difficulties such as unfamiliar institutional profile including both formal rules and informal culture, and thus, building legitimacy in the host market will be a great challenge for them (Kostova, 1999; Kostova and Zaheer, 1999; Li and Yao, 2010). Considering these arguments and that many EM MNEs are not in the 'mature' stage where firms have enough experience and resources to deploy risky and adventurous FDI strategies, the EM MNEs' FDI decision to DM hosts, which is evidently unfamiliar and 'foreign' to these firms, is quite a puzzling phenomenon. This raises questions regarding 'why' this 'radical decision' occurs. Furthermore, it is critical for MNEs to understand the institutional background in both home and host countries and to devise the most suitable strategies for different institutional environments, in order to reduce the risks and costs derived from 'liability of foreignness'. How these strategic decisions respond to 'institutional difference' between EM home and DM host will have a great implication for EM OFDI to DM cases considering the substantial distance between these two markets. Thus, institutional theory can be helpful in developing detailed hypotheses and propositions regarding the research questions and sub-questions of this thesis on the determinants and subsequent strategic decisions of the EM OFDI to DMs at both entry and post-investment stages.

The next stage is to consider what is meant by 'institutions' and what does it mean to apply institutional theory to FDI studies. Starting from the perspectives of North (1990, p.3) and

Scott (2008, p.2), institutions here are considered as “the humanly devised constraints that structure human interaction” and institutional theory as “the processes by which... (institutions)...become established as authoritative guidelines for social behaviour”. Within this context, applying institutional theory to EM OFDI means investigating whether, and how, institutions affect EM OFDI decisions and activity. However, the argument that “institutions matter is hardly novel or controversial” as a list of studies above which have applied institutional theory in their FDI analyses shows, but “what is interesting is *how* institutions matter” (Peng *et al.*, 2008 p.921). The following sub-section will review and discuss which perspectives of institutionalism are particularly selected for this thesis’ theoretical framework and how these specific perspectives can be applied to the analyses.

3.3.2.2. *Institutional Theories*

Although Peng *et al.* (2008) emphasised that ‘how institutions matter’ is an important aspect to consider in the application of institutional theory, many of the studies applying institutional theory in analyses of EM OFDI, including Peng *et al.* (2008) themselves, often miss the detail of ‘how’ this theory is important, as they do not provide a clear idea of which perspectives from this theory are applied to their study. This can hinder engaging in a specific level of analysis such as “the meanings and usage of the concept of institution” or developing institutional variables. There are various varieties of institutionalism (e.g., Institutional Economics, Organisational Institutionalism or Comparative Historical Institutionalism depending on academic disciplines, or ‘old’ and ‘new’ within the same discipline) and they differ regarding ‘how institutions matter’ in specific aspects such as the definition or the analysis level of institutions, although they all agree that ‘institutions matter’ (Powell and DiMaggio, 1991; Scott, 2008). Whilst “which definition of an institution to adopt is not an issue of right or wrong”, defining a clear starting point for the purpose of the analysis is

important in order to achieve a thorough and appropriate application of this theory (Aoki, 2001, p.10 cited in Hotho, 2009, p.7). Although “identification of the dominant varieties of institutionalism” depends on the study’s issue, New Institutional Economics, New Organisational Institutionalism and Comparative Historical Institutionalism have been dominant in recent IB research (*ibid*). Therefore, in this sub-section, this study intends to carry out in-depth investigation of these three types of institutional theories in order to discern which institutionalism is the most appropriate for the purposes of this study’s analyses.

New Institutional Economics (NIE)

As the name implies, New Institutional Economics (NIE) is a more recently evolved version of institutional economics. However, the ‘old’ and ‘new’ institutional economics do not share much “intellectual kinship” despite being the same discipline; rather, scholars of the latter approach have often been harsh critics of the former due to its descriptive and abstract theoretical nature (Scott, 2008, p.2). Early institutional economists initiated the concept that “economic processes operate within a social framework which...(are)...in turn shaped by a set of cultural and historical forces”, rather than a “reduced...set of universal laws” (Powell and DiMaggio, 1991; Scott, 2008, p.2-5). Commons (1970), one of these early institutional economists, suggested ‘transaction’, which is “two or more wills” interacting under “rules of conduct” rather than “individual choice” in the conventional neoclassical idea of economic analysis, as a more appropriate unit of economic analysis (Scott, 2008, p.3). Here, ‘rules of conduct’ imply institutions.

This ‘transaction’ concept is further developed in NIE, focusing on the costs derived from it. Coase (1937) introduced this concept in his article ‘The Nature of the Firm’, arguing that

economic exchanges within a firm are coordinated by entrepreneurial mechanism in contrast to those in the market coordinated by price mechanism. The ‘entrepreneur-coordination mechanism’ creates additional costs to those caused by the price mechanism in the market such as costs derived from information access, “negotiating and concluding a separate contract for each exchange transaction which takes place on a market” (Coase, 1937, p.391). Thus, these additional costs need to be taken into account when considering the cost firms face in the market. Later, Williamson (1979) generalised and extended Coase’s transaction cost concept and developed NIE further by including a wider variety of institutional contexts or governance structures into analyses of economic behaviour (Mathews and Zander, 2007; Scott, 2008). However, the ‘Williamson variant of NIE’ is still closely in line with the ‘neoclassical’ economic approach as his “elemental conceptual building block” is the ‘opportunistic individual’ (Hodgson, 1994, p.70), and thus, it focuses primarily on “mesoanalytic” issues of “comparative statics” between different forms of governance in terms of how they economise on transaction costs (Scott, 2008, p.29). In this way, it seems that Williamson’s NIE approach mainly concerns “the effectiveness of individual institutions” rather than “coherent institutional configurations” (Hotho, 2009, p.6). However, later, other NIE scholars such as Douglas North, considered more “macroquestions” regarding a higher level of analysis such as “the origins of cultural, political, and legal frameworks and their effects on economic forms and processes” (Scott, 2008 p.29). North’s main focus lay in the ‘wider institutional frameworks’ at the societal level, which were considered as “background conditions” in Williamson’s approach (*ibid*, p.29-30). Thus, North’s approach concerns the institutions and institutional arrangement of a country at the ‘macro-economic level’. This study’s assumption of institutional influence on EM OFDI to DM is that the institutions and institutional arrangement in EM MNEs’ home and host countries work as FDI determinants. Therefore, in this context, this study intends to use

North's (1990) approach for the starting point of NIE for the theoretical framework of this thesis.

North (1990) also, like other NIE scholars, challenged the basic assumptions of neoclassical economics on a number of aspects: firstly, do the participants in the market behave rationally led by the individual utility function driven by the competitive price mechanism of the market forcing them to do so if they want to survive, and secondly, is there, therefore, no transaction cost? What North's variant NIE argues is that human behaviour is "subject to the effects of wider institutional frameworks", and therefore, the cost arising from exchange and production, *i.e.*, the transaction cost, is determined by institutions rather than mere price factors (North, 1990; Hirsch and Lounsbury, 1996 cited in Scott, 2008 p.29). In this context, North (1990) developed his institutional theory combining theories of human behaviour and theories of transaction cost to understand "why institutions exist and what role they play in the functioning of societies" (p.27).

Regarding the question of 'why institutions exist', North (1990) argued that due to the complexity and incompleteness of information that individuals face in reality, which contrasts to the neoclassical assumption, "human behaviour was more complex than that embodied in the individual utility function" in terms of "deciphering the environment" (p.22). Therefore, this theory explains that often "regularised patterns of human interaction" rule human behaviour rather than utility function in an attempt to reduce uncertainty (p.23). These regularised patterns of interaction are institutions, and the incompleteness of information and uncertainty caused from it are the reason why institutions exist.

In this approach of NIE, institutions are largely categorised as formal and informal institutions. In practice, the focus of this theory often lies in formal institutions such as rules and regulations and their close relationship with economic institutions (North, 1990;

Williamson, 2000). Formal institutions facilitating economic exchange include political rules as well as economic ones, and the causality and the direction of influence between them runs both ways (North, 1990). North (1990) particularly emphasises the ‘property right’ structure for the example of formal institutions, and with this example he describes the relationship between political and economic institutions as follows: “property rights and hence individual contracts are specified and enforced by political decision-making, but the structure of economic interests will also influence the political structure” (*ibid*, p.48). At the same time, informal institutions such as norms, conventions or culture are also regarded as an important part of the whole institutional structure in NIE. These are “socially transmitted” and inherited from one generation to the next, and thus possess inherent “built-in rigidity” (North, 1990, p.37; North, 2005). Therefore, “the persistence of so many aspects of a society in spite of a total change in the rules” can often be explained by ‘informal institutional aspects’, whilst formal institutions can complement and increase the effectiveness of informal institutions in a given institutional structure (North, 1990, p.36, 46). In this way, these two kinds of institutions are closely interconnected and how they evolve together shapes the overall institutional arrangement of a society.

For the question of ‘what role institutions play in the functioning of societies’, North (1990)’s NIE theory combines the theory of transaction cost with human behaviour theory. Following this NIE approach, transaction cost can be defined as ‘the cost of exchange’. Here, an exchange is not carried out under the assumption of costlessness of information but rather depends on the value of an exchange to the participating parties and the accessibility or availability of the necessary information each party has, requiring additional resources to “measure...(the)...attributes and...to define and measure rights that are transferred” (North, 1990, p.29-30). Thus, the transaction cost includes the additional costs derived from this process, and institutions can affect ‘the functioning of societies’ by governing transactions in

various areas such as in politics (e.g., corruption, transparency), law (e.g., economic liberalisations, regulatory regime), and society (e.g., ethical norms, attitudes towards entrepreneurship), and in turn, by determining the costs of these transactions (Peng *et al.*, 2008, p.922). The example of ‘property rights and enforcement of the agreement’ determining transaction costs again gives a good picture of this relationship in action (North, 1990, p.61).

In this way, the institutional structure of a society determines the ‘transaction cost’ of various exchanges between different parties and therefore, in turn, it affects the performance of the economies. North (1990)’s figurative terms “rules of the game” and “players” describe well this interrelationship between institutions, organisations (different parties involving exchanges) and organisational performance (which consist of the performance of the economies). For North, the given rules of the game (institutions), and the enforcement characteristics of the rules, function as constraints to the players defining their performance. How well these institutions work for the desirable economic performance not only depends on how good ‘the rules of the games’ are set up but also how much the players are forced to follow the rules, as these players not only passively accept and follow given sets of rules but can also actively disobey or even alter the rules where possible. In this way, “the existing structure of rights and the character of their enforcement define the existing wealth-maximising opportunities of the players” (p.47).

Enforcement can come from various sources such as “second-party retaliation”, “internally enforced codes of conduct”, “societal sanctions” and “a coercive third party”, *i.e.*, the state (p.33). Amongst them, within this NIE framework, the “state” becomes an important unit of analysis as “the state shapes, limits and controls the private organisations that engage in economic activity within its reach” (North *et al.*, 2009, p.38). This is because formal institutions such as government policies or business-related regulations, which shape firms’

strategy and behaviour, are designed by the government whilst the government plays a critical role in enforcing these policies, laws and regulations. In this way, the quality of institutions and the efficiency of the institutional mechanisms, which have a significant impact on firms' performance and strategic decisions, are often discussed in a country context (Dikova and Van Witteloostuijn, 2007 cited in Nyuur, 2014).

Applying this theory to FDI, it can be said that MNEs, the players in the FDI market, are constrained and influenced by their surrounding institutional environment such as the home country and host country institutions, the rules of the game, and their enforcement (Buckley *et al.*, 2008). In this context, NIE theory from North's perspective provides a fundamental foundation with this study in that both EM home country and DM host country institutions and their enforcement influence EM firms' FDI decision. Before discussing the justification of NIE application to this study's theoretical framework in detail, each of the following subsections will introduce and discuss the remaining two major institutionalisms: New Organisational Institutionalism and Comparative Historical Institutionalism.

New Organisational Institutionalism (NOI)

In contrast to the historical approach to the 'institutionalisation process' of a society in North's NIE theory, this institutionalism sees institutionalisation as a "phenomenological process by which certain social relationships and actions come to be taken for granted" for organisations in societal fields (Zucker, 1983, p.2 cited in Powell and DiMaggio, 1991). What distinguishes this 'new' organisational institutionalism from the 'old' one is that the former shifted the attention outwards, focusing on 'inter-organisational' analysis at the 'societal' level compared to the latter which focuses on 'intra-organisational' analysis (Powell and DiMaggio, 1991; Powell and Bromley, 2013). In this sense, this New

Organisational Institutionalism (NOI) is appropriate for this study in that it provides a theoretical framework for investigating the process of “how the external environment socially constructs organisations, providing them with templates for their formal structures and policies” (Powell and Bromley, 2013, p.2) and organisations’ strategic activities to “gain the legitimacy and resources needed to survive” in a given institutional environment (Meyer and Rowan, 1977, p.352 cited in Scott, 2008, p.152).

NOI emphasises “the importance of social fitness” of organisations (Scott, 2008), and therefore this institutionalism is often applied in many Business studies to understand ‘firms’ conformity strategy’ (Oliver, 1997). One of the major principles developed in this institutionalism to explain organisations’ ‘conformity’ process, which happens in the relationship between institutional processes and organisations, is the principle of isomorphism. The institutional theory of isomorphism was originally developed to explain why organisations become similar to each other in their evolution process for survival in a certain institutional environment. DiMaggio and Powell (1983, p.150) reinforced the institutional isomorphism concept with their three well-known types of isomorphism as coercive, normative, and mimetic. Based on this, (1) coercive isomorphism results from “political influence and the problem of legitimacy”, and (2) mimetic isomorphism derives from uncertainty, and finally (3) normative isomorphism stems from professionalisation. As the normative isomorphic process is via common education or professional networks, there is a tendency towards societal pressures by members of other organisations, which implies at least some degree of external coerciveness (Perrow, 1986 cited in Venard and Hanfi, 2008). In this context, normative isomorphism reveals the ambiguity in distinction of typology of isomorphism (Hotho, 2009), and thus, this study will only focus on coercive and mimetic isomorphism in its analysis, taking DiMaggion and Powell (1983) as the main reference. Firstly, “coercive isomorphism results from institutional pressures exerted on organisations

by other organisations upon which they are dependent and by cultural expectations in the society within which organisations function” (*ibid*, p.150). This ‘coercive isomorphic pressure’ can be exerted in various forms such as force, persuasion, or invitations to join in collusion. The coercive isomorphic pressure usually comes from formal institutions such as government mandates, regulation and legal structures requiring organisations to conform to these coercive institutions, and therefore Meyer and Rowan (1977) emphasised a “rationalised state” as one of the key actors which exert this coercive isomorphic pressure on organisations within its arena (cited in DiMaggio and Powell, 1983, p.150). Under this pressure, “organisational structures increasingly come to reflect rules institutionalised and legitimated by and within the state,” and as a result, “organisations are increasingly homogeneous within given domains and increasingly organised around rituals of conformity to wider institutions” (*ibid*).

This coercive institutional pressure not only comes from the legal structure of a state but can also come from outside the governmental arena. A good example can be subsidiaries being forced to “adopt accounting practices, performance evaluations, and budgetary plans that are compatible with the policies of the parent corporation” (DiMaggio and Powell, 1983, p.151). This implies that often the ‘legitimation agents’ can vary for organisations in a certain given environment, and this is particularly true for modern organisations which relate to many different institutional environments (Scott, 2008). Therefore, “[w]ho – which agencies or public bodies – have the right to confer legitimacy on organisations of a given type may not be a simple question in environments characterised by complexity or conflict” and the longevity and success of organisations depends on how well “individual organisations exhibit culturally approved forms and activities (including strategies), receiving support from normative authorities, and having approval from legal bodies” (DiMaggio and Powell, 1983, p.156). Based on the discussions regarding ‘coercive isomorphic pressure’ so far, when

applying this theory to MNEs in the host country at the operational stage, it can be assumed that these firms face coercive institutional pressure from host government institutions, particularly legal structures regarding business, whilst many of them at the same time have additional pressure from their parent company at home. Moreover, this concept provides the theoretical explanation for understanding why gaining legitimacy of MNEs in the host is critical for their survival and success.

Secondly, 'mimetic isomorphic pressure' is firms' strategic reaction under uncertainty rather than pressure from coercive authority. DiMaggio and Powell (1983) argue that "uncertainty is also a powerful force that encourages imitation" (p.151). Facing poorly understood organisational technologies (March and Olsen, 1976) or uncertainty in the environment, organisations often choose 'modelling' other similar organisations in their field that "they perceive to be more legitimate or successful" as their strategy because this yields a viable solution with little cost (Cyert and March, 1963 cited in DiMaggio and Powell, 1983, p.151). Strategic responses of firms to institutional processes are regarded as an important part of NOI. In this sense, the 'mimetic isomorphic pressure' concept, when being applied to FDI study, can provide a theoretical basis for analysing MNEs' strategic response to uncertainty caused by a complex institutional environment in the host.

In practice, considering this perspective's focus on organisational fields, where the interaction between organisations and the environment arises, New Organisational Institutionalism has been applied to IB studies regarding the influences of institutional environment on firms' business activity such as MNEs' cross-unit transfers of business practice or building legitimacy in the host-country and their strategic reaction such as isomorphism (Kostova, 1999; Kostova and Zaheer, 1999). This institutionalism, particularly the principle of isomorphism, also addresses questions regarding why "uneasy tension exists between...(the)...informal and formal structures" (Scott, 2008, p.153).

Comparative Historical Institutionalism

Comparative historical institutionalism arises from the idea that “a country’s key institutional elements...and societal features developed interdependently over time”, and therefore, in this theory, “institutions are...conceived as social institutions at the societal level, whose relations with economic actors and with the organisation of economic activity are contextually embedded” (Hotho, 2009). Thus, this theory emphasises differences between “the ways in which economic activities are organised and controlled” in different societies (Whitley, 1999).

As a branch of institutional theory, comparative historical institutionalism not only shares fundamental ideas of NIE or NOI that institutions matter but also has compatible aspects with the other two institutionalisms. First and foremost, similarly to NIE, this theory’s analysis level is mostly ‘distinguished’ in terms of institutional arrangements in different societies at a macro or country level. Whitley (1999) applied this perspective to the development of the “divergent capitalism” concept, meaning that there are various forms of economic and business systems evolved in different institutional arrangements. He organised key institutional features which structure business systems into four categories: the state, financial system, skill development and control system and lastly trust and authority relations. Based on his classification, ‘new capitalism’ such as East Asian and Eastern European capitalism was also suggested.

Secondly, similarly to NOI, Comparative Historical Institutionalism emphasises institutional setting at a societal level. However, whilst the former focuses on organisations’ “notion of rationality” or “set of institutionalised expectations” towards the societal institutional environment, the latter considers “how these...(institutional)...structures are themselves constituted as economic coordination systems” (*ibid*). In this context, although both

institutional theories can provide a framework for the assumption that the duality of institutional environment between home and host impacts on FDI, the former suggests a framework for MNEs' recognition and reaction towards this complex institutional environment whilst the latter provides a framework for the dynamics of home vs. host institutional environment *per se*.

However, there are aspects of this institutionalism which are distinctive from the other two as well. The most significant is that whilst the focus of analysis of the other two institutionalisms lies in 'institutions', this institutionalism's analytical focus is on "institutional interdependencies" (Hotho, 2009, p.16). In practice, as this institutionalism's emphasis is on 'comparative' institutional characteristics inherent from a society to another, it tends to "have traditionally relied on 'thick' qualitative descriptions" (Maurice, 2000 cited in Hotho, 2009 p.14) whilst the other two institutionalisms have been applied in several quantitative studies (*ibid*).

3.3.2.3. Application of Institutional Theories

The previous sub-section looked at the three most commonly used institutionalisms in IB studies. Table 7 classifies these institutionalisms by their characteristics to compare their similarities and differences. This table has been quoted from Hotho (2009), but was adapted for this study using alternative classification criteria as Hotho (2009) suggested in his notes to his own table (See note of table 2 in Hotho, 2009 p.16). Looking into these institutionalisms together will help to work out which institutionalism will be most appropriate for each part of analyses of this study.

Table 7. Classification of varieties of institutionalism

Level of analysis	Nature of Institutions	
	Endogenous	Exogenous

Country	New Institutional Economics (NIE)	Comparative institutionalism	historical
Firm		New institutionalism (NOI)	organisational

Source: Hotho, 2009, Table 2, p. 16, adapted by author

These institutionalisms were classified by level of analysis initially; this study's two analyses differ at their level with the first part at the country level whilst the second is at the regional and firm level. As can be seen in Table 7, NIE and Comparative historical institutionalism are the level of analysis at the country level and therefore can be considered for the theoretical framework for the first part of analysis. In order to consider which institutionalism is most appropriate between NIE and Comparative historical institutionalism, their differences will provide key insight. Although there are several differences between these two institutionalisms, one of the major ones this study particularly focuses on is their different view of how they perceive the 'nature of institutions'. NIE views institutions as endogenous whilst Comparative Historical Institutionalism considers institutions as exogenous. Because NIE "view[s] institutions as endogenous, or as adaptable constraints", "[t]his permits a detailed analysis of both institutions and their effectiveness" (Hotho, 2009, p.8) and for this reason, within IB, this institutionalism is often used in studies which "focus at the effects of differences in the effectiveness of country-level institutions" (*ibid*, p.9).

Conversely, although Comparative Historical Institutionalism also considers 'differences' between different 'capitalisms' at the country level, its focus is rather on "the emergence and persistence of intrinsic differences between societies, such as in the organization of work (Maurice *et al.*, 1986) and production systems (Hollingsworth and Boyer, 1997), and more generally, in the form of economic organization (Whitley, 1999)" than differences in effectiveness of various 'macro-economic related institutions' in different countries (cited in Hotho, 2009, p.14). Based on the discussions thus far this study adopts NIE theoretical view

rather than Comparative Historical Institutionalism for the theoretical framework development due to the fact that the fundamental assumption of this study regarding the influence of the different institutional environment and enforcement of EM home and DM host countries of EM MNEs on the determinants of EM OFDI to the UK is rather on the differences in their ‘effectiveness’ than on ‘intrinsic differences’ *per se*. However, at the same time, if any discussions regarding ‘intrinsic institutional differences’ during the rest of the process (e.g., analysis) are brought up, Comparative Historical Institutionalism may still provide some insight for the relevant discussions.

Alternatively, the analysis level of NOI is at the ‘firm level’, compared with the other two institutionalisms’ analysis level which is usually at the ‘country level’. NOI focuses on ‘organisational forms and organisational practices’, and therefore, this institutionalism sees institutions as exogenous, considering them as “taken for granted ways of acting” of firms (Morgan and Kristensen, 2006, p.1470). Therefore, for an in-depth analysis of the second-part analysis of this thesis and for developing propositions assuming specific firms’ strategic aspects at regional and firm level, this institutionalism can provide an appropriate perspective.

As the decision regarding which institutionalisms will be used has been made, the next stage is to discuss how these institutional theories will actually be applied to this study. The major intention of this study in its application of institutional theory is to apply NIE within an adapted RBV framework for EM OFDI. The fundamental theoretical framework of this study aims at reflecting this study’s assumption that EM home and DM host institutions/institutional arrangements at the country level work as push and pull factors for EM OFDI. Indeed, there are some studies which have already made an effort to combine institutional theory and RBV such as Oliver (1991; 1997) and Peng *et al.*, (2008). However, their approaches differ from this study’s in several ways. Firstly, their understanding of

institutional theory concentrates on NOI perspective whilst the RBV perspective in their study is a conventional one. Therefore, the understanding and assumption regarding firms' responses to the institutional environment and regarding 'resources' and 'purpose of resource access' in their studies differs greatly from those of this study. For example, their institutional understanding is at the firm level whilst this study intends to focus on differences in effectiveness of national level institutional arrangement. In addition, although their studies saw firm's response to institutional environment as 'interest driven' by applying both RBV and institutionalism together, due to the nature of traditional RBV and NOI, the response of firms assumed in their studies is rather passive and focuses on 'conformity'. On the contrary, this study's fundamental theoretical framework is built within an 'adapted RBV' framework for EM OFDI, where firms' understanding of resource and resource access is rather proactive, and therefore pull factors of the host and external environment become critical.

Secondly, and closely in line with the first reason, the context of their studies and the process of combining and applying these two theories in their studies also differ from this study's. Neither of Oliver's works (1991; 1997) are IB or FDI studies but instead focus on firms' strategic behaviour in general. His efforts to combine two theories are focused on comparing NOI perspective, simply referred to as 'institutional theory' in his study, with an RBV perspective, in order to find out how these two theories can supplement each other with their own theoretical strength in explaining firms' behaviour, namely firms' heterogeneity in RBV and conformity in NOI (*ibid*). Although Peng *et al.*, (2008)'s study is on FDI, particularly on EM OFDI, their analysis similarly focuses on EM firms' strategy in FDI. In terms of Peng *et al.*, (2008)'s attempt to combine RBV and institutional theory, their study shows a similar approach to this study's as they include these two theories into their theoretical framework for proposition/hypothesis development. However, they include these two theories as parallel parts of the theoretical framework which consists of three different major theories, whilst this

study tries to apply NIE within an ‘adapted RBV framework’ assuming not only ‘institutional constraints’ in home countries as an active push factor but also ‘advanced institutions/institutional arrangements’ in the host as a ‘resource’, which works as an active ‘pull factor’. Although the context of the study differs, Gubbi *et al.*’s (2010) work on EM MNEs’ firms’ performance in the host countries at the post-investment stage, suggested that DM host countries’ “advanced economic and institutional environments” can provide “the promise of higher quality of resources, and/or lead to enhanced resource complements”, and assume to have a ‘positive influence’ on ‘post valuation’ of the EM MNEs in DM host countries (p.398). This study intends to develop their assumption of a ‘positive relationship’ between the ‘advanced economic and institutional environments’ of DM host countries and the ‘higher quality or resources’ further by looking into whether the former can actually function as a kind of the latter and in turn, act as ‘determinants’ of FDI decisions into the DM host country.

Moreover, although Peng *et al.*, (2008)’s theoretical framework with both theories included is developed as a ‘model’ for further proposition/hypothesis development, Peng *et al.*, (2008)’s study does not carry out any empirical test but instead applies the model in the context of some case studies. Conversely, the first-part analysis of this study tries to investigate how institutional aspects of the home and host country affect determinants of EM OFDI into the UK through empirical analysis (panel analysis) for which hypotheses will be developed based on the theoretical framework where NIE was applied within an ‘adapted RBV framework’. In practice, within IB, NIE is often applied to analyses of the effect of formal institutions or macro-economic institutions on business activity (e.g., Meyer, 2001; Meyer and Peng, 2005; Dikova and Van Witteloostuijn, 2007) as this theory allows institutional factors, which are not considered in firms’ cost analysis in traditional economics, to be “conceived as factors which quite independently constrain or impact...the cost of IB activity” (Jackson and Deeg,

2008, p.542 cited in Hotho, 2009, p.9). Therefore, many IB studies applying NIE take a “variable-based approach” to institutions, selecting or developing indicators of institutions or their effectiveness for their analysis, which this study will also follow in its ‘panel analysis’ (*ibid*).

For the second part of the analysis, both NIE and NOI can provide a useful theoretical background. First of all, the fundamental theoretical grounds of NIE are 1) organisations as players of the game are constrained and influenced by the rules of the game and the enforcement of them, by institutions; and 2) informal institutions persist despite the formal institutional changes due to ‘built-in rigidity’, is still applicable for the second-part analysis of this thesis, providing a useful insight regarding EM MNEs’ strategic decision and behaviour in the host at the post-investment stage. EM MNEs face a complex institutional environment from both informal institutional constraints inherited, and persisting, from the home country and surrounding formal institutional environment in the host which differs greatly from their home. In this context, NIE can also provide the theoretical explanation which justifies the fundamental assumption of this thesis’ second-part analysis that EM MNEs will face a great deal of ‘institutional duality’ in the DM host institutional context and this will affect their further investment strategy and decisions in the DM host. However, NIEs primary attention lies in constructing “institutional rule systems” and the enforcement process of these systems to players, whilst considering that “the playing teams and their structures and strategies” requires an additional institutionalism mainly focusing these aspects (Scott, 2008, p.150). Therefore, in order to understand the processes regarding the way in which ‘institutional duality’ affects EM MNEs’ specific strategic behaviour and decisions in the host at the operational stage based on institutional framework, NOI can provide help.

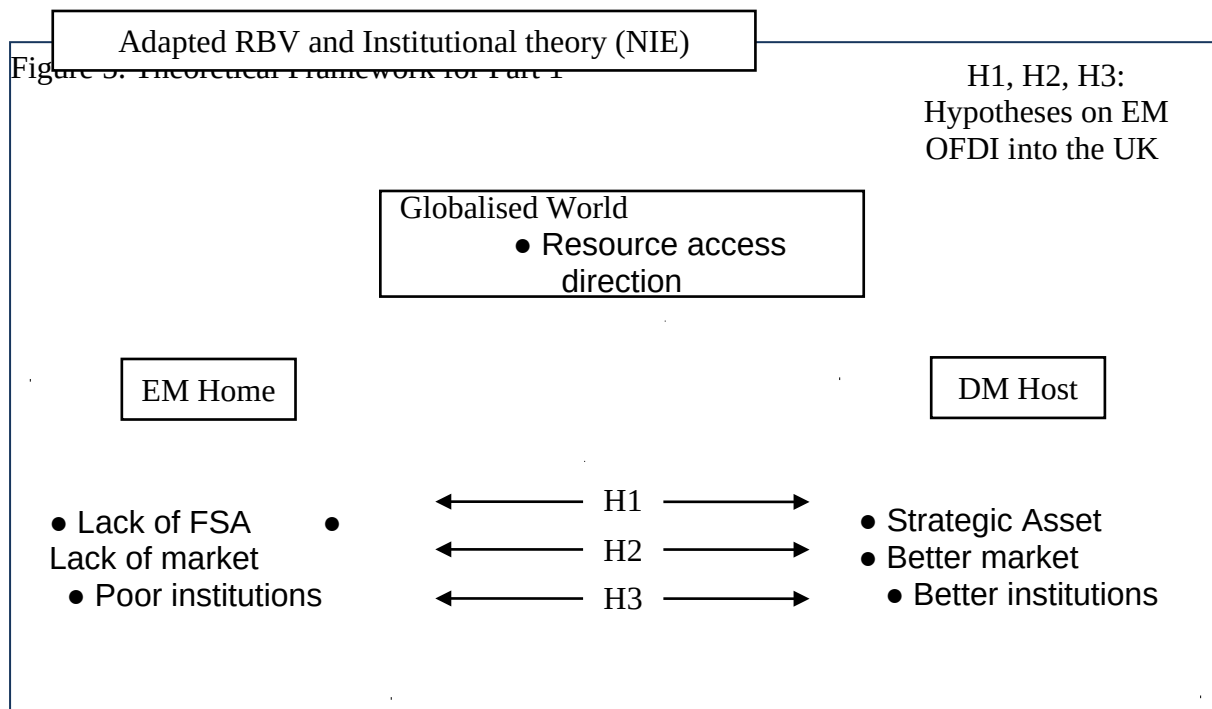
The ‘institutional duality’ EM MNEs in the DM host face, arises between informal institutional constraints inherited from home countries and coercive institutional pressure

from the host country's formal institutional structure and, in some cases, additional coercive pressure from the parent companies back home. Based on NOI, this institutional pressure from a 'dual institutional environment' leads to EM MNEs shaping their behaviour and strategies in a DM host. Moreover, considering the large difference between EM home and DM host institutions, this 'institutional duality' can be assumed to exert even more significant pressure and create an even more complex and uncertain environment for firms to face in this case. Here, NOI, including its isomorphism theory, provides a useful theoretical background as this institutionalism sees "non-economic rewards" such as "increased legitimacy, resources and survival capabilities" as an important motivation or determinant of firms' strategic behaviour (Scott, 1987, p.498 cited in Oliver, 1997, p.699). In this context, NOI theories such as 'mimetic' reaction or 'modelling' strategy may be applied to explain some very likely strategic options for EM MNEs in the DM host country to survive or achieve success at the post-investment stage.

3.3.3. Theoretical frameworks for each part

Based on the reviews and discussions of theories in the previous sections, this section built a detailed theoretical framework for each part of the analysis so that within the framework specific hypotheses and propositions can be developed to address the research question and sub-questions. First of all, applying the approaches of NIE within the fundamental framework based on the 'adapted RBV from EMs' perspective', the institutional constraints affecting EM firms' transaction cost and performance can be understood as a kind of disadvantage working as a push factor, whilst the better developed institutional arrangement and efficient institutional enforcement structure in the DM host can be a kind of attractive pull factor to EM OFDI to a DM host. Considering these arguments, the theoretical

framework for the first part analysis regarding ‘the determinants of EM OFDI to the UK’ can be described as in Figure 5 below.

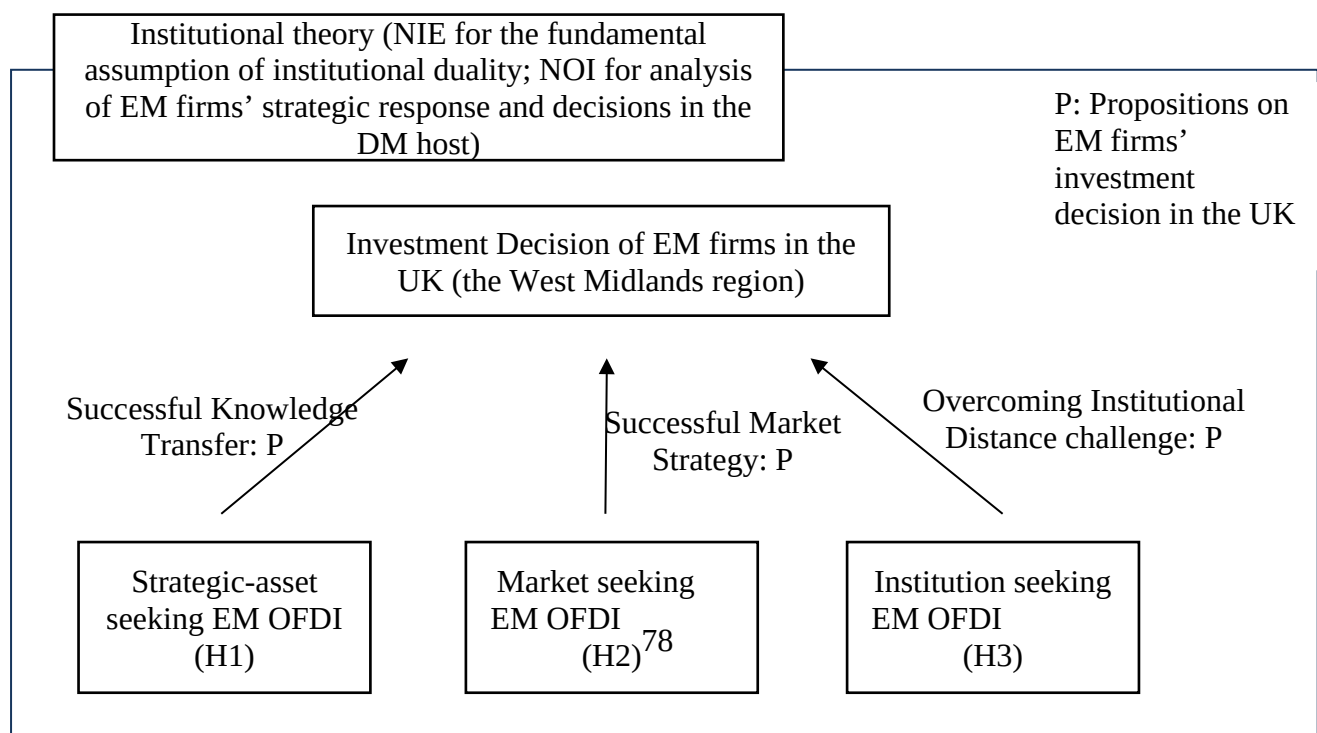


Source: Author's figure

As can be seen in Figure 5, the adapted RBV and institutional theory consists of the framework. Within this framework, EM firms' lack of FSA, relatively poorly developed and intensely competitive home market and underdeveloped home country institutions are assumed to work as push factors whilst the corresponding aspects of the UK, a DM host, such as advanced competitive advantage level, relatively more abundant and better developed market and institutions are assumed to work as pull factors. Considering the highly globalised world as an exogenous condition for EM firms, this encourages EM firms in terms of their FDI to go out to access necessary resources which they themselves and their home country lack and which are relatively more abundant in the DM host. This study will therefore, develop hypotheses regarding EM firm' resource access incorporating the push and pull factors together.

Although the framework in Figure 5 is rather focused on the entry stage, it plays a significant role in building a theoretical framework for the second part of analysis covering the post-investment stage too, as ‘foreign market entry’ decisions “not only help us understand the behaviour of the multinational firm but have significant implications on performance” (Woodcock *et al.*, 1994; Brouthers, 2002 cited in Surdu and Mellahi, 2014, p.2). Considering the motivation behind the determinants of EM OFDI, which is to access to and transfer of resources they need, it can be assumed that further investment decisions of EM MNEs will depend on how effectively these firms achieve their original goals regarding resources in the host. Whilst one aspect of the second-part analysis is to consolidate the findings regarding the determinants of EM OFDI into the UK from the first part analysis at a firm and regional level, another goal is to investigate how these determinants and motivations from the entry stage have significance and influence on firms at the post-investment stage. Particularly, considering the radical FDI behaviours of EM OFDI to DM hosts, which are based on these motivations, the assumption regarding the influence of entry stage determinants on firms’ performance and further decisions at the post-investment stage seems to be more persuasive. Luo and Tung (2007) also argue that although EM MNEs’ radical and path-independent behaviours, *i.e.*, the ‘springboard’ approach, allow them many opportunities, at the same time it creates “some unique problems or challenges” to these firms at the ‘post-springboard’ stage (p.494). They argue that although EM MNEs are motivated to make an unconventional locational decision, such as going to a DM host or a radical investment decision such as acquiring large MNEs with a world-class brand, their disadvantages such as lack of FDI experience or large institutional distance between the firm/home country and the host can pose “critical bottlenecks” for EM MNEs in achieving their investment goals linked to successful FDI (*ibid*).

In this context, how successfully EM MNEs believe they have achieved their original FDI goals regarding resource access and transfer can be gauged by these firms' satisfaction level regarding their initial FDI decision and further investment decision, *i.e.*, expansionary investment decision. Therefore, the propositions for the second-part analysis will be developed to address the questions regarding these aspects, particularly relating to firms' strategic reaction and behaviours. For the theoretical framework, institutional theory provides the fundamental grounding as it can be easily assumed that the substantial distance between EM home and DM host country institutions, and therefore, the subsequent institutional duality EM MNEs face in the DM host will have significant influence on EM MNEs at the operational stage. Peng *et al.*, (2008, p.920-922) and Gammeltoft *et al.*, (2012) also argued that in order to understand firm strategy and performance, 'context-based' approach, which deals with "the organisation's relationship with its broader environment", is important, and therefore, institution theory, which provides the theoretical ground to understand this context, can play a critical role in relevant studies. Based on the arguments so far, the theoretical framework for the second part will be constructed as demonstrated in Figure 6 below.



*Figure 6. Theoretical Framework for Part 2*Source: Author's figure

The second part of the study assumes that EM MNEs face a complex institutional environment in the UK, under which these firms will take some strategic action to achieve the goals which are assumed in hypotheses regarding their FDI motivations and will be analysed in the first part of the analysis. Therefore, as can be seen in Figure 6 above, the propositions will be developed based on these strategic actions or behaviours, which are assumed to influence these firms' satisfaction regarding their investment success and further investment decisions in the UK within the institutional theoretical framework. Here, NIE's 'built-in rigidity' of institutions and the concept of coercive and mimetic isomorphic pressure from NOI will provide the theoretical ground for the institutional theoretical framework.

3.4. Summary of the chapter

This chapter started with a brief review of how FDI determinant theories have developed since they emerged in the 1960s. FDI determinant theories have been developed in such a way that they have been adjusted or extended reflecting the changes in the trends and characteristics of FDI. In this context, this study suggested that the theoretical framework for the analysis of the determinants of EM OFDI to DM host, a more recent phenomenon, might also require adjustment of traditional theories or inclusion of new perspectives from other theories. For the first step of this process, this chapter reviewed traditional theories in more detail. This review shows that traditional FDI theories from Hymer (1960; 1976) to Dunning's OLI paradigm have emphasised the key role of Ownership advantage or FSA in MNEs' FDI decisions. At the same time, another stream of FDI studies focusing on MNEs' strategic or behavioural perspective, such as Vernon (1966), the Uppsala model or Dunning's IDP theory, all argue that the FDI development or progress in a conventional FDI trend is

gradual and incremental in terms of locational decision depending on a country's economic development or a firm's experience. However, although many South-South investment trends agree with aspects of FDI mentioned above from the traditional FDI theories, EM OFDI to DMs, as argued here, suggests a range of novel characteristics which are missing in traditional theories. In general, EM MNEs lack their own FSA to exploit in foreign market, particularly in an upstream market, and their radical internationalisation pattern such as an upstream investment is not very incremental or gradual considering their brief experience of FDI and economic development stage.

Considering these discussions, this study introduced 'Resource-Based View' theory adapted from EM firms' perspective to build a fundamental framework for understanding EM firms' motivations when they head towards DM hosts as the determinants of this FDI. The original RBV, similarly to the traditional FDI theories, emphasised the importance of 'valuable resources' (FSA in traditional FDI theories) and internalisation (exploitation in traditional FDI theories) for the success of a firm. However, RBV, at the same time, emphasises the strategic importance of the selection and deployment of resources. In this sense, when RBV is adapted and applied from EMs' perspective, this theory can provide a framework within which EMs' distinctive evaluation of resources and access to resources, which shape their OFDI motivations and determinants, can be understood. The imbalance concept of RBV suggests that FDI can be motivated by firms' disadvantages as well as advantages. Grant (1991) saw 'filling the resource gap' and 'augmenting the resource base' as a firm's strategy by which firms obtain resources. Adopting these ideas from the RBV approach to EMs' perspective, this study develops a fundamental theoretical framework within which EM OFDI to DM host, including the UK as this study's case, can be understood to be motivated by necessary resource access and transfer so that they can fill the resource gap. This framework was described in Figure 4. To summarise the description of this figure, the disadvantages of

EM firms and their home country works as a push factor of EM OFDI based on imbalance theory, whilst the advantages of DM host countries, which are relatively more advanced and abundant than EM home countries, attracts EM OFDI to these hosts. Here, the highly globalised world plays a significant role as this trend intensifies competition in the EM home market, which works as an additional disadvantage and push factor, whilst turning EM firms' resource access direction outwards from a 'latecomers' perspective and encouraging them to undertake FDI for their 'catching up' strategy, working as an additional pull factor.

At the same time, this study has argued that institutional aspects are crucial in analyses of EMs including EM OFDI and discussed how institutional theory can supplement the fundamental framework by providing a theoretical grounding for a more specific level of analysis. Institutional aspects are important in EM OFDI analysis, firstly as EMs have distinctive institutional arrangements different from conventional DM players due to their underdeveloped market institutions, and more recent experience of radical institutional changes through the globalisation and liberalisation process; secondly, as EM home country institutional constraints and government influence constitute a large part of the disadvantage in the EM OFDI; and lastly, due to the significant difference in institutional environment between EM and DM.

In order to reflect these critical aspects of EMs and EM OFDI in the analysis, this study introduced the major institutionalisms which have been dominantly used in IB studies, namely New Institutional Economics (NIE), New Organisational Institutionalism (NOI) and Comparative Historical Institutionalism. Amongst these institutionalisms, NIE and NOI were selected for this study's theoretical framework development considering their level and focus of analysis. In terms of NIE, this study refers to North (1990)'s variant. His theory explains that institutions, *i.e.*, 'regularised patterns of human interaction', influence the functioning of societies by ruling transactions, and in turn, by determining transaction costs. In this way,

institutions affect the performance of economies. Here, the enforcement of institutions is as important as institutions *per se*. In this context, within NIE framework the ‘state’, which designs the formal institutional structure and possesses ‘coercive enforcement’ power, becomes an important unit of analysis. North (1990) describes the interrelationship between institutions, organisations (different parties involving exchanges) and organisational performance (which consists of the performance of the economies) using his well-known terms ‘rules of the game’ and their enforcement, and ‘players’. This theory, therefore, provides the theoretical grounding for FDI analysis where MNEs, the players in the FDI market, are constrained and influenced by their surrounding institutional environment such as the home country and host country institutions, the rules of the game, and their enforcement. This assumption was applied within the adapted RBV theoretical framework as ‘institutional resource advantage in DM host (pull factor) and disadvantage in EM home (push factor)’.

For the second-part analysis, the NIE approach regarding the persistence of informal institutions supports the assumption of this study on EM MNEs’ strategic reaction towards the ‘institutional duality’ between home and host institutions. Here, to assist the second part analysis with this assumption, NOI was introduced. Whilst North’s NIE has implications for understanding how institutional systems of different countries have been constructed and enforce the players in the system, NOI helps us to understand ‘the playing teams’ perspectives. This theory’s focus is on organisations’ interrelationship with other organisations and surrounding institutional environments in terms of how they gain ‘legitimacy’ in a given circumstance. This study particularly employs the principle of isomorphism developed from this institutionalism, with DiMaggio and Powell (1983) as the main reference. Although they developed three different types of isomorphism, this study only focuses on ‘coercive’ and ‘mimetic’ isomorphism, of which the former refers to ‘institutional pressure’ from coercive authorities, such as government or parent company, to

conform their institutional structures, with the latter referring to firm's strategic 'modelling' reaction under uncertain institutional circumstance respectively. Application of the principle of isomorphism to FDI studies provides a theoretical ground for investigating EM OFDI's post-investment stage, where EM MNEs deal strategically with institutional duality between informal institutional constraints inherited from home countries and coercive institutional pressure from the host country's formal institutional structure and in some cases, additional coercive pressure from parent companies back home.

Having discussed FDI theories and developed suitable theoretical frameworks, the next chapters now develop the methodology used followed by two analysis chapters. Chapter 4, on methodology, discusses the triangulation approach and individual methodologies for each part of the analysis. Chapter 5 provides an analysis of the determinants of the EM OFDI into the UK at national level. Within the theoretical framework described in Figure 5, detailed hypotheses will be developed and tested with a quantitative methodology. Chapter 6 analyses the determinants of the EM OFDI into the UK at regional level focusing on initial and post investment decisions in the West Midlands region. In addition to consolidating the findings from Chapter 5 with a qualitative methodology at a firm and regional level, this chapter will develop detailed propositions to investigate the subsequent investment decision at the post-entry stage within the theoretical framework described in Figure 6 and these propositions will be addressed with case studies.

Ch.4 METHODOLOGY

4.1 Introduction

This chapter concerns the methodology used within this thesis. A methodology is “a principled and well-argued position about how techniques of research are going to fit a given research topic” (Olsen, 2007, p.2). Here, the methodological position refers to an epistemological research position while ‘techniques of research’ refers to methods used for data collection and analysis (Bryman, 1984; Olsen, 2007). Therefore, in discussions of a methodology, the definition of the epistemological position needs to take place prior to decisions on methods for data.

Epistemology is “the basis on which we can claim to know things” (Nadvi, 2010), and there are two major epistemological positions: positivism and phenomenology. In positivism, ‘the given’ is source of knowledge, whilst in phenomenology, all knowledge is derived from “its ultimate sources”, and therefore, positivists tend to “view events from...the point of view of a cluster of empirical concerns which are imposed upon social reality”, whilst

phenomenologists see the social world “from the point of view of the actor...in the context of meaning systems employed by a particular group or society” (Sinha, 1963; Bryman, 1984, p.78). As a result, positivist research tends to deal with quantitative issues such as numerical measurements or causal relationships of variables whilst phenomenological research tends to be qualitative with an interpretive and naturalistic approach (Thomas, 2003).

However, at the technique level, such as decisions regarding methods for data collection and analysis, the distinction often becomes less clear than it is at the philosophical level and there is not necessarily a 1:1 relationship between one epistemology and a certain technique (Burrell and Morgan, 1979 cited in Easterby-Smith *et al*; Bryman, 1984). Reflecting this, Sayer (1992) suggested ‘realism’, as an alternative for the strong dualism between positivism and phenomenology (Olsen, 2004). Realism points out the fact that social objects are in part “on-going real existence that is not constituted entirely by how today’s researchers construe them”, and therefore, decisions on methods are not a ‘one or the other’ type of decision but rely on a given context of both theory and practical issues (Sayer, 2000 cited in Olsen, 2004, p.4). In this way, taking a ‘realist’ epistemological position allows “methodological pluralism” in research by selecting the most appropriate method(s) for the given research question and, in turn, justifies a ‘methodological triangulation’ approach (*ibid*). This study also attempts to take this ‘methodological triangulation’ approach based on a ‘realist’ epistemological position by applying both quantitative and qualitative methodology for two separate parts of the study considering the purpose and characteristics of research questions addressed in each part. The remaining sections of the chapter will provide detailed discussions regarding the ‘methodological triangulation’ approach (Section 4.2) and specific methodologies selected for this study, *i.e.*, ‘panel analysis’ for the first part (Section 4.3) and ‘case analysis’ for the second part of the study (Section 4.4), together with justifications for

this study's selection of these particular methodologies for each part. The last section (section 4.5) summarises the chapter.

4.2 Methodological triangulation

The scope of this study's research questions incorporates investment decisions of EM firms at both the pre- and post-investment stages into and within the UK. To address these research questions effectively, this thesis aims at addressing these research questions in separate parts of the study applying 'mixing methods' by taking a 'methodological triangulation' approach. The first part of the study intends to investigate the entry decision of EM firms to the UK at the pre-investment stage at national level. The scope of this study's second part covers 'post-investment' or 'operational' stage of EM firms having come to the UK through FDI at regional and firm level. However, investigating these firms' investment decision as a whole process, from their original entry to any kind of further investment decisions in the UK, can provide understanding regarding both entry and further investment decision of these firms. In this way, the second part of the study can aim at supplementing the analysis results from the first part of the study. Therefore, the 'methodological triangulation' approach will help choose the most appropriate analysis tool for different analysis levels as this approach is based on "methodological pluralism" justified by the realism epistemological position (Olsen, 2004, p.4).

Denzin (1970) distinguished different forms of triangulation, referring to "the use of more than one method for gathering data" (Bryman, 2004, p.2). Based on this meaning, he divided "methodological triangulation" into further two categories, – the "within-method" and the "between-method" triangulation. The former refers to using varieties of the same method to investigate the subject, such as questionnaires with contrasting scales to measure a certain research issue, whilst the latter involves contrasting research methods such as questionnaires

and observation. Between-method triangulation often refers to a combined use of quantitative and qualitative research methods to determine “how far they arrive at convergent findings” (*ibid*, p.3). Thus, researchers may use this type of triangulation to check the validity of their findings of one method by cross-checking them with another method (*ibid*). For example, Hughes *et al.* (1997) collected data through structured interviews and focus groups to study the consumption of designer drinks and found that the two sets of data mutually confirmed each other’s findings (Bryman, 2004). In this way, employing the ‘methodological triangulation’ approach can achieve a complete picture of research with a more rounded perspective on the subject, particularly regarding complex phenomena, than when only one side of methodology is applied (Olsen, 2004; Hussein, 2009). For this reason, there is growing support amongst researchers towards ‘mixing methods’ or the ‘methodological triangulation’ approach (Easterby-Smith *et al.*, 1991; Perry, 1998; Bryman, 2004; Olsen, 2004; Hussein, 2009). In practice, Hussein (2009) actually introduced an example of IB research on institutional and cultural impact on MNEs’ activity for a study for which the ‘triangulation strategy’ can be justified due to its complexity.

Based on the discussions so far, a ‘methodological triangulation’ approach is appropriate for this study with the aim of gaining a more complete picture of the relatively unexplored phenomenon of EM OFDI in the DM host country. Following this approach, this study aims to supplement the findings from the quantitative analysis with qualitative analysis by cross-checking the validity of these findings. Conducting statistical analysis and then focusing on part of the analysis in more depth with qualitative methods, is one example of a triangulation strategy (Wisker, 2007). For a specific quantitative and qualitative methodology, this study chose panel data and case study analysis. More detailed discussions and justification for this study’s selection of these particular methodologies for each part will be provided in the following sections.

4.3 Panel analysis

Quantitative methods target numerical measurement of analysis units and aim at demonstrating the degree of relationship between these units (Thomas, 2003; Yang, 2010). The most common form of quantitative analysis method is statistics, the purpose of which is “identify[ing]...one measurement as a response or dependent variable” and “making statements about this measurement” by “learn[ing] about the effect that an exogenous explanatory variable has on a response, controlling for the other variables” (Frees, 2004, p.1; p.9). In this sense, the statistical methods are preferred in investigating causal relationships in social science, such as evaluating the effects of important macroeconomic variables (e.g., interest or inflation rates) on various aspects of the economy or assessing the impact of a certain policy implementation on relevant areas etc. (Wooldridge, 2009). Therefore, for the first part of this study, which aims at an analysis of the determinants of EM OFDI into the UK at a national level, quantitative methods are more effective and appropriate than qualitative. In fact, in IB or FDI studies including ‘determinant study’, quantitative and statistical analysis is dominant as many leading journals in these fields show (several examples can be found in Faeth, 2009; Surdu and Mellahi, 2014).

Amongst the statistical methods, ‘panel analysis’ was chosen. The term ‘panel study’ was introduced by Lazarsfeld and Fiske (1938) in their study on the effect of radio advertising on product sales by proposing repeated interviews of a set of people – the panel – to investigate the causality relationship between advertisement and sales, and in this sense a ‘panel’ can be defined as “the entity under investigation is observed repeatedly as it exists and evolves over time” (Frees, 2004, p.15). Similarly, Baltagi (2005, p.1) referred the term ‘panel data’ to the “pooling of observations on a cross-section of households, countries, firms etc. over several time periods”. Thus, panel analysis combines aspects of both cross-sectional regression

analysis, “a special type of multivariate analysis...from a cross-section of subjects”, and time-series analysis investigating “relationships over time, the so-called dynamic aspects of a problem” with a limited number of subjects, as if it were “a marriage” of the former and the latter (Frees, 2004, p.1).

The denotation of a panel data regression has a double subscript on its variables, *i.e.*, $\mathcal{Y}_{it} = \alpha_i + x_{it}\beta + \varepsilon_{it}$, ($i = 1, \dots, N$; $t = 1, \dots, T$), where i and t denote a unit of subject, the cross-section dimension, and time, the time-series dimension, respectively (Frees, 2004; Baltagi, 2005, p.11). In this way, panel analysis aims at understanding \mathcal{Y}_{it} , the dependent variable, as a response for the i^{th} subject during the t^{th} time period (*ibid*). Here, α_i , ‘subject-specific parameter’ reflects incorporation of heterogeneity among subjects, which controls the heterogeneity of individuals, and there are two types of model of heterogeneity, *i.e.*, the fixed and random effect models (Frees, 2004). These two models differ in terms of the disturbances, ε_{it} . As most panel data cases utilize a one-way error component model for the disturbances, the disturbance ε_{it} can be written as $\varepsilon_{it} = \mu_i + \nu_{it}$, where μ_i denotes ‘the unobservable individual-specific effect’ and ν_{it} , the remainder disturbance (Baltagi, 2005). In the fixed effect models, μ_i is assumed to be fixed whilst it is assumed to be random in random effect models. The fixed effect model is appropriate when the analysis is focused on a specific set of N subjects (e.g., N firms or N countries) by restricting the inference to this particular set of N subjects that are observed, whilst the random effect model is appropriate when N individuals are randomly drawn from a large population with the μ_i independent of x_{it} for all i and t (*ibid*). Thus, if there are too many parameters in the model, the random effect model will be an option to avoid a huge loss of degrees of freedom (*ibid*). In practice, the Hausman test is used to decide whether to use a fixed or random effect estimator and

most of the statistical software packages provide this test (Frees, 2004; Park, 2011). This test examines how similar the fixed and random effect estimators are with the null hypothesis that “the random effect estimate is insignificantly different from the unbiased fixed effect estimate” (Kennedy, 2008, p.286). Therefore, if the null hypothesis is rejected, then it can be concluded that individual effects μ_i are significantly correlated with at least one regressor in the model, X_{it} , and therefore, the random effect is not appropriate in this case (Park, 2011, p.13).

As panel analysis consists of both dimensions of time-series and cross-section analysis this analysis demonstrates several advantages over the latter. For example, compared with cross-sectional regression analysis, which can only reveal a “static relationship”, panel analysis can estimate ‘dynamics of change’, which is only possible with “sequential observations for a number of individuals” (Hsiao, 2003, p.5; Frees, 2004, p.5). Even compared with ‘repeated cross-sectional regression analysis’, panel analysis can estimate ‘time-varying effects’ of variables, whilst the former only estimates ‘aggregate changes in a variable’ (Frees, 2004, p.7). In this way, panel analysis provides “a more accurate description of an individual’s behaviour...by observing the behaviour of others in addition to the information on that individual’s behaviour by pooling the data” (Hsiao, 2003, p.7). At the same time, whilst time-series analysis can estimate dynamic coefficients, it cannot utilize the inter-individual differences in X_{it} values (*ibid*). Although multivariate time-series analysis accounts for relationships among a limited number of subjects, it still requires a large number of observations over a time period to make reliable inferences and thus needs a strong assumption of stability of the model over a long period, whilst panel analysis allows estimation of dynamic relationship between subjects with fewer time series observations

(Frees, 2004). In this sense, panel analysis is helpful where the time scope of data set is relatively short for time-series analysis, which applies for this study (Baltagi, 2005).

In addition, panel data is also better at controlling the effects of ‘omitted variables’ compared with pure cross-sectional and time-series regression data (Frees, 2004). By “utilizing information on both the inter-temporal dynamics and the individuality of the entities being investigated”, panel data set gives more informative data allowing a researcher to control the effects of missing or unobserved variables better (Hsiao, 2003, p.5; Baltagi, 2005). In this way, panel analysis meets conditions for establishing causality, which are 1) a statistically significant relationship between variables, 2) the association between two variables must not be due to an omitted variable, and 3) the causal variable (explanatory variable) must precede the other variable in time (temporal ordering) (Frees, 2004, p.11). Moreover, the relatively larger number of data points a panel data set usually has over those of pure cross-section and time series data sets tends to bring other advantages such as increasing the degree of freedom, reducing the collinearity amongst explanatory variables and improving efficiency with smaller standard errors (Hsiao, 2003; Frees, 2004).

However, “despite the advantages panel data may possess, they are subject to their own potential experimental problems” (Hsiao, 2003, p.11). Whilst panel data with aspects of both cross-sectional and time-series regression data can render possible analysis of complicated models, its complex structure can also lead to failure in subtle ways (Frees, 2004). One possible problem panel data can have is ‘heterogeneity bias’, which is caused by failure to include heterogeneity quantities in the model when important factors peculiar to a given individual are left out (Hsiao, 2003, p.8; Frees, 2004, p.9). Another issue is ‘attrition’, which refers to “a gradual erosion of responses by subjects” and is caused when nonresponse from the same subjects increases over time (Frees, 2004, p.11; Baltagi, 2005). What these examples show is that “panel data is not a panacea and will not solve all the problems that a

time-series or a cross-section study could not handle” (Baltagi, 2005, p.8). In order to utilize this tool effectively, limiting the possible problems at their lowest level, it is important that the model is based upon well-established assumptions derived from relevant and appropriate theories, whilst minimizing the attrition of data (Frees, 2004). In IB and FDI studies, there is a strong tradition of developing models appropriate for statistical analysis including panel analysis based on relevant theories to investigate causal relationships or to test those theories. In this process, the descriptor of a ‘panel data’ has become much broader rather than being confined to only ‘a group of individuals surveyed repeatedly over time’ (*ibid*, p.2). For example, in several IB/FDI studies, including FDI determinant analysis utilising panel analysis, various macroeconomic figures, rather than survey responses, were used for the individual units of the ‘panel’ (e.g., Hill and Munday, 1992; Benacek, *et al.*, 2000; Resmini, 2000; Agiomirgianakis *et al.*, 2003; Bevan and Estrin, 2004; Carstensen and Toubal, 2004; Bénassy-Quéré *et al.*, 2007; Dunning *et al.*, 2008; Alon, 2010). Moreover, as panel analysis is widely used in social science literature, a growing number of well-established databases have also become available for this analysis (Hakim, 1987; Frees, 2004; Vartanian, 2010). In these approaches, the ‘attrition’ issue is minimised. Bearing in mind the discussions so far, the approach adapted for the panel analysis in the first part of this study is: 1) to build an appropriate model for the analysis based on the hypotheses and with reference to other FDI determinant studies; and 2) to decide on appropriate proxies and data sources for variables in the model. This will be dealt with in detail in the following chapter (Ch.5), the analysis chapter for the first-part of this study.

4.4 Case analysis

Qualitative methodology shows strength in “its ability to examine the dynamic, context-dependent and interactive phenomena”, which quantitative data is often not easily able to

reveal, and therefore is useful for “the study of motivations and other connections between factors” (Hakim, 1978, p.28; Welch *et al.*, 2002, p.612; Eisenhardt and Graebner, 2007). Considering the research question and aims of the second part of this study, *i.e.*, completing the picture of the research subject and supplementing the first part of the study by including more types of FDI and investment stages, qualitative methodology will be appropriate for collecting and exploring data at the field level from EM firms’ perspective. Amongst qualitative methods, case analysis will be employed. ‘Case study’ or ‘case analysis’ is one of the most popular qualitative research methodologies for business studies, as can be seen in many award-winning papers using this methodology and the high degree of citations of studies using this methodology in relevant papers (detailed examples can be found in Eisenhardt and Graebner, 2007, p.25). One strength of the case analysis is in “bridg(ing) from rich qualitative evidence to mainstream deductive research”, which is usually based on quantitative data (*ibid*). This strength of the case analysis is particularly suitable for this study considering its methodological triangulation purpose.

Case analysis can be defined as description of an entity, the entity’s actions and explanations of why the entity acts as it does (Thomas, 2003, p.33). Here, the entity, which comprises the unit of a case, can be an individual, group, organisation or large-scale community (Gillham, 2000a; Yin, 2012). Yin (2003, p.13), “one of the most commonly cited references on qualitative methods in management research” (Bengtsson *et al.*, 1997, cited in Welch *et al.*, 2002, p.613), defines the case analysis as an “empirical inquiry that investigates a contemporary phenomenon in depth and within its real life context”. Thus, he stresses that case analysis is an “all-encompassing” research strategy, rejecting the perception that it is a “mere data collection tactic”. Eisenhardt and Graebner (2007, p.25) also emphasised the strength of the case analysis as a comprehensive methodology by defining it as “rich, empirical descriptions of particular instances of a phenomenon that are typically based on a

variety of data sources”, which implies that it differs from a mere data collection ‘method’. With reference to these studies, this thesis will use the term ‘case analysis’ referring to the comprehensive qualitative methodology, in order to distinguish it from a ‘case study’, which often refers to a data collection and analysis ‘method’ in many studies.

The first and most important aspect to consider in decision of a methodology is a research question (Gillham, 2000a; Yin, 2003). Case analysis mainly target answering ‘how’ or ‘why’ research questions and therefore, are particularly appropriate for contextual analysis and identifying relationships (Yin, 2003; Holtbrugge and Kreppel, 2012). Although the research question for this part of the study is ‘what are the influencing factors of EM firms’ investment decision in the West Midlands?’, this question does not aim at having a mere list of factors but rather intends to investigate ‘why’ EM firms chose the UK and the West Midlands and ‘how’ the factors assumed in propositions affect their investment decision at entry stage and at operational stage from EM firms’ perspective. In this way, this study can achieve a rounded understanding of the phenomenon of EM OFDI into the UK, addressing both ‘what are the determinants of the EM OFDI into the UK’ and ‘how actually these determinants influence on their investment decisions into and within the UK’. In practice, a case analysis can be used “to refine knowledge” by focusing on particular issues within the broader scope of study such as within surveys or statistical findings and providing “a more richly detailed and precise account of the processes at work” (Hakim, 1987), which is closely in line with this study’s direction.

However, other methodologies such as historical research or experiment are also appropriate to address ‘how’ and ‘why’ types of questions (Yin, 2003). Therefore, Yin (2003, p.7) suggests further steps to justify the selection of the case analysis once decisions regarding a broad type of research question are made, which is to consider the “extent of control over behavioural events” and “degree of focus on contemporary as opposed to historical events”.

In terms of ‘extent of control’, ‘case analysis’ is suitable for the context where a degree of access to actual behavioural events is available (e.g., historical methodology needs to be used when the event is actually ‘dead’ past) but at the same time a researcher is not able to manipulate the relevant actual behaviour as experiment researchers can. In this sense, case analysis is mainly used to investigate ‘contemporary’ phenomenon or events although the cases can be historical accounts (Yin, 2003; Eisenhardt and Graebner, 2007). These aspects also support this study’s selection of the case analysis.

Once case analysis is chosen for the methodology, the next step is to design the case analysis (Yin, 2012). Similar to the conclusion of the previous section, specific discussions and processes of the case analysis design will be dealt with in detail in Chapter 6, the analysis chapter for the second part of this study.

4.5 Summary of the chapter

This chapter overviewed the methodological decisions of this study and discussed the details of the selected methodologies to support and justify the decisions. For its epistemological position, this study chose the ‘realism’ position suggested by Sayer (1992) as this position provides a ‘realistic’ approach in selection of methods based on a given context or practical issues of the research as an alternative to the strong dualism between positivism and phenomenology (Olsen, 2004). Taking this ‘realist’ epistemological position, this study aims at ‘methodological triangulation’, more specifically ‘between-method triangulation’, by applying both quantitative and qualitative methodology considering the scope and the subject of the research questions which will be addressed in two different parts of the study. Employing different methodologies for each part can achieve several advantages. Firstly, considering the strength of each methodology and the major research question addressed in each part of this study, the most appropriate methodology for the relevant part can be selected. Secondly, findings from multiple methods can be cross-checked and confirmed by

each other, which will bring a more rounded understanding of the subject. Considering the research scope and questions addressed in each part of the study, quantitative methodology will be applied in the first part of the study which aims at an analysis of causal relationship (determinant study) at the national level, and qualitative methodology will be applied in the second part of the study, which aims at supplementing the first part of the study and extending the scope of the study to the post-investment stage by narrowing down the analysis level to the regional and firm level.

For specific quantitative and qualitative methodologies, panel data and case analysis have been selected. Panel analysis is a so-called ‘marriage of cross-section regression and time-series analysis’ (Frees, 2004). Therefore, panel analysis demonstrates comparative advantages over the latter as it can estimate ‘dynamics of change’ through “sequential observations for a number of individuals” whilst allowing estimation of dynamic relationship between subjects with fewer time series observations (Frees, 2004, p.7). However, at the same time, it is also without any shortcoming such as ‘heterogeneity bias’ or ‘attrition’ issues. To utilise this analytical tool effectively, whilst minimising the possible problems, this study will build an appropriate model for the analysis based on the hypotheses and decide appropriate proxies and data for variables in the model. The detailed process will be dealt with in the analysis chapter for the first part of the study in the following chapter.

Case analysis is one of the most popular qualitative research methodologies for business studies. One of its strengths lies in “bridging...(the gap)...from rich qualitative evidence to mainstream deductive research”, and this strength is helpful for our study considering its methodological triangulation purpose (Eisenhardt and Graebner, 2007, p.25). Case analysis is often used “to refine knowledge” by focusing on particular issues within the broader scope of study (Hakim, 1987). Moreover, case studies mainly target answering ‘how’ or ‘why’ research questions and are appropriate for contextual analysis and identifying relationships

(Yin, 2003; Holtbrugge and Kreppel, 2012). Therefore, this methodology is appropriate for the second part of this study which intends to investigate ‘why’ EM firms chose the UK and the West Midlands and ‘how’ the factors assumed in propositions affect their investment decisions at both the entry and operational stage from the EM firms’ perspective. In addition, this study also meets other conditions where case analysis is suitable such as ‘lack of control’ and ‘focus on contemporary events’. The specific process of a case analysis, such as collecting data and analysis, will be dealt with in the analysis chapter for the second part of this study after the panel analysis in the following chapter.

Ch.5 THE DETERMINANTS OF EM GREENFIELD OFDI INTO THE UK

5.1 Introduction

This chapter addresses the first sub-question, ‘what are the determinants of EM OFDI into the UK?’ through panel data analysis. In order to discuss detailed hypothesis development, it will be helpful to review the framework for this part of the study. As demonstrated in Figure 5 (see 3.3.3), the fundamental analytical framework for this part is based on ‘adapted RBV from EMs’ perspective’ with NIE theories applied to reflect more complete aspects of EM OFDI. Within this framework, ‘the determinants of EM OFDI to the UK’ are assumed to be complex motivations influenced by both push factors from EM home countries, lack of necessary resources in their various forms, and pull factors from DM host countries, in terms of relatively more abundant resources compared to EM home economies. In addition to these home and host factors, the highly globalised world also plays a critical role as an exogenous condition for EM firms by encouraging them to go out to access necessary resources through OFDI in DMs. The main purpose of this chapter is to develop relevant hypotheses regarding

these factors and motivations within this theoretical framework and test them through panel analysis in order to investigate the research question of ‘the determinants of EM OFDI to the UK’.

This chapter consists of the following sections: the first section (5.1) provides an introduction. The following section (5.2) will develop hypotheses within the framework as demonstrated in Figure 5. In Section 5.3, a model will be constructed for the panel analysis to incorporate the hypotheses by proposing a range of variables and deciding appropriate proxies for relevant variables. Section 5.4 will provide the empirical results of the analysis and discussion of these whilst the final section provides a conclusion.

5.2 Hypothesis development

5.2.1. Strategic-asset seeking EM OFDI

The first hypothesis is derived from the assumption that EM firms’ lack of FSA works as push factors whilst the advanced competitive advantage level of the UK, a DM host, works as pull factors. In addressing these push and pull factors this study assumes that EM firms’ search for ‘strategic-assets’ motivates EMs to undertake FDI to a DM host. So-called ‘strategic-asset seeking’ motivation has already been addressed in a number of traditional FDI studies. Dunning introduced the strategic-asset seeking motivation concept together with other motivations such as natural-resource, market and efficiency seeking motivations (Dunning, 1980 cited Faeth, 2009; Dunning 1993). Here, Dunning’s strategic-asset seeking motivation is still understood within the traditional Ownership advantage theory, and in this context, Dunning (1996) argues that typically the natural-resource seeking and market seeking FDIs are initial investment decisions whilst efficiency and strategic-asset seeking FDIs are sequential investment decisions (Faeth, 2009, p.172). There are also other studies which have suggested similar concepts to this motivation. For example, Kojima (1960)

suggested that some FDIs are carried out by “investing country’s comparatively disadvantaged industry...to achieve a stronger comparative advantage” in his “catching up product cycle” concept (Goldstein, 2007, p.75). There has been also so-called technology-sourcing FDI, such as the cases of IFDIs into biotechnology and electronics industries in the US, where FDI decisions are mainly influenced by host countries’ relatively more intensive technological advantages regardless of the FSA or home country technology levels of source firms (e.g., Shan and Song 1997; Cantwell, 1999; Pearce 1999 cited in Driffield and Love 2007).

However, the strategic-asset seeking motivation of EM OFDI needs to be understood from a different perspective from these motivations. Firstly, strategic-asset seeking motivation of EM OFDI compared with other similar motivations is more related to the lack of FSA. ‘Lack of FSA’ is one characteristic of EM OFDI distinct from traditional FDI for which ‘Ownership advantage’ is a key condition (Rugman and Verbeke, 2003; Ramamurti and Avenue, 2008). Under this condition, EM MNEs, as latecomers to ‘the highly globalised world market’, need to turn their direction outside to develop ‘competitive advantage’ to ‘catch up’ DM incumbents in the integration process of the world market, as the home country condition is often not constructive for developing competitive advantage due to the low level of innovation or lack of technology cluster etc. (Mathews, 2006; Tolentino, 2012). Secondly, in contrast to Dunning (1996)’s argument that strategic-asset seeking FDIs are usually sequential ones, many initial EM OFDIs are motivated to seek for strategic-assets. Globalisation allows EM firms to access a necessary resource (e.g., a strategic-asset) in foreign markets, particularly in DMs, where the innovation and advantage level is often relatively higher than in their home countries’. The rationale behind EM MNEs’ strategic-asset seeking motivation is that FSA can arise “not only from the possession of proprietary assets but also from the capacity to acquire, or the efficient coordination of, the

complementary assets owned by other firms in a host country” (Makino *et al.*, 2002, p.406). In this way, strategic-asset seeking EM OFDI are largely initial investments compared with the arguments that typically traditional strategic-asset seeking OFDI is gradually carried out through sequential investments (Dunning, 1996). The argument that FSA can be externally acquired as well as be developed internally has been supported by several recent studies (e.g., Rugman and Verbeke, 2003; Rothaermel and Boeker, 2008 cited in Elia *et al.*, 2014), and this argument is closely in line with this thesis’ ‘adapted RBV framework’ from EMs’ perspective’, which emphasises the importance of accessing resources externally. In this context, ‘strategic-asset seeking’ motivation can be a persuasive hypothesis regarding ‘the determinant of EM OFDI to the UK’.

In order to develop this hypothesis regarding strategic-asset seeking motivation of EM OFDI into the UK in more detail, the next step is to define what is meant by strategic-assets, which EM MNEs seek within a DM host. A ‘strategic-asset’ is often defined in narrow terms, referring to certain type of assets such as brand names and therefore, studies on EM OFDI to DM host with this motivation tend to concentrate on M&A cases (e.g., Deng, 2004; 2007; Gammeltoft, 2008; Holtbrugge and Kreppel, 2012). However, the theoretical framework of this thesis in Figure 5 implies that EM OFDI are determined by pull and push factors at the host and home country level. Therefore, strategic-asset in this hypothesis developed within this thesis’ theoretical framework implies the strategic-asset level or competitive advantage level of DM host and EM home countries in broader terms. Yamakawa *et al.* (2008, p.68) suggested a similar concept to this – ‘innovation seeking motivation’, arguing for “the potential to learn and transfer...knowledge into competitive advantage” from a host possessing a well-developed innovation level as a possible motivation of EM OFDI. They argued further that the innovation level of the host can be a strategic resource for EM MNEs by not only helping to develop new technological or organisational capabilities but also to

improve their absorptive capacity, all of which contributes to the competitive advantage (Cantwell, 1992; Autio *et al.*, 2000; Zahra *et al.*, 2000; Zahra and George, 2002 cited in Yamakawa *et al.*, 2008; Li *et al.*, 2004). Their conclusion regarding the innovation-seeking motivation of EM OFDI into the DM hosts was derived from a similar theoretical framework to this thesis, such as the LLL paradigm. Focusing on the ‘Learning’ aspect in particular, they argued that “an organisational learning motive to access new capabilities” and to “tap into the knowledge bases” of the firms and clusters in the developed host countries is a plausible motivation for EM MNEs to head towards DM hosts (Yamakawa *et al.*, 2008, p.68). Closely in line with their arguments and within a framework similar theoretical to theirs, the ‘strategic-asset’ assumed in the hypothesis of this thesis refers to the strategic-asset level of the UK, a DM host, rather than certain types of specific assets.

This approach also supports the assumption regarding the EM home country’s relatively poorer strategic-asset level as a push factor. Tolentino (2012) argues that the innovation level of MNEs is necessarily influenced by home country environment. Therefore, the strategic-asset level of EM home countries, many of which have not reached any significant worldwide level of technological development or sophisticated business/marketing method development, may motivate EM MNEs (which in general lack their own competitive advantage but need to catch up with the fast-integrating world market) as a push factor (Tolentino, 2000 cited in Tolentino, 2012). In practice, Zheng *et al.* (2014) observed the case that Chinese firms, which already possess some forms of “domestic developed technologies”, are still motivated mainly by ‘strategic-asset seeking’ purpose as their home country technology remains far behind those of DMs, and therefore, falls short of EM MNEs competitive advantage development at the world market level (p.23). In addition, there are arguments that cultural distance can work as a positive factor for ‘innovation’ or ‘knowledge’ seeking FDIs. This is because the source firms can access unique and diverse knowledge or technology in the host

with a different cultural background, and therefore the effectiveness of the strategy to create and extend the knowledge base will be maximised (Kogut, 1983; Rosenkopf and Almeida, 2003 cited in Elia *et al.*, 2014). These arguments further justify the strategic-asset seeking hypothesis of this study's case – EM OFDI to a DM host – where the 'cultural distance' between source and host countries is significant. In addition, it provides additional support for this study's understanding of the strategic-asset seeking motivation as a complex one reflecting both push and pull factors from home and host.

Summarising the discussions so far, it is particularly likely that the strategic-asset seeking motivation can be observed in the EM OFDI into the DM host cases, and thus this study also argues for the importance of this motivation by developing the first hypothesis as following:

H₁ : 'Strategic-asset seeking' motivation is a positive significant determinant of EM OFDI into the UK.

5.2.2. Market seeking EM OFDI

In addition to 'Strategic-asset seeking' motivation, this study suggests further hypotheses within the adapted RBV framework by broadening the concept of 'resource' to 'market' or 'better business environment'. Luo and Tung (2007) argue that EM MNEs use 'springboard' strategies, accessing and acquiring necessary resources through OFDI, in order to "compete more effectively against global rivals" whilst "avoid[ing] the institutional and market constraints they face at home" (p.484). Facing these major push factors – institutional and market constraints at home – EM firms, which have a global outlook consider "the opportunities through which it can expand are likely to be found in the global market rather than in its domestic environment" and this can become their "source of advantage" (Mathews, 2006, p.18). In this sense it can be assumed that the opportunities, which can be

developed as a 'source of advantage' but are lacking at home and relatively more abundant in the DM hosts, can be regarded as 'resources' for EM firms.

Within the theoretical framework demonstrated in Figure 5, the relatively poorly developed and intensely competitive home markets of EM firms are assumed to work as push factors, whilst the corresponding aspects of the UK (a DM host), relatively more abundant and better developed market, are assumed to work as pull factors for EM OFDI. Again, here push and pull factors are equally critical in discussions regarding EM OFDI determinants motivated by their resource access issues.

'Market' has been considered as an important FDI determinant in traditional FDI studies although the context and characteristics differ here as to what is described as 'market seeking motivation'. Following Faeth (2009), who carried out an in-depth literature review regarding how, and from what theoretical perspective, FDI theories have been developed, 'market' was considered as an important possible FDI determinant even from the earliest stage of FDI theories. Examples of empirical studies using a 'market' variable in FDI determinant study can be found in Faeth (2009) and in Table 1 of Chakrabarti (2001, p.91). Here, 'market' as an FDI determinant in the studies quoted above is market potential measured in terms of 'size', based on the traditional FDI theories. Within OLI paradigm framework, 'market seeking motivation' is understood as firms' expansion of market and monopolistic role in the market beyond their home country border whilst exploiting their own FSAs (Dunning 1980; 1993). In addition, in traditional FDI studies focusing on firms' 'Ownership advantage', FDI is motivated by seeking markets beginning from close foreign markets (in both geographical and cultural terms) and progressing to those more distant based on the 'proximity-concentration hypothesis', as the more 'proximate' the foreign market the less risky 'exploiting FSAs' becomes (Faeth, 2009).

Market seeking motivation seems to be an important FDI determinant for EM MNEs too (e.g., Alon, 2010; Holtbrugge and Kreppel, 2012). However, within the adapted RBV framework, the ‘market seeking motivation of EM OFDI to the DM host’ is not just for new market search but reflects both ‘push factors’ from EM sources’ home and ‘pull factors’ from the DM host. As regards market push factors from EM source home countries, in many EM countries, their home markets (which are still at the primary stage or facing inadequate development and competition) work as constraints (Langlois, 2013). Even for some large EM economies, such as the BRIC countries, where the domestic market size measured in terms of population is large, the market seeking motivation assumed can still be one of the main drivers of their OFDI. This is because the firms in these economies often face the market constraints mentioned above due to their countries’ low per-capita income level, and therefore need to seek market opportunities outside of their home countries (Holtbrugge and Kreppel, 2012).

Moreover, the intensive globalisation trend across the world in recent years is also a factor which makes the ‘market seeking motivation of EM OFDI to the DM host’ within the adapted RBV framework distinguished from traditional theory. Part of the reason that EM OFDI differ from DM OFDI lies in the different context of the global market. When DM MNEs started to undertake FDI in the 1960s, the world market was limited to the West. However, ‘globalisation’ exerted liberalisation pressure on EM countries to open their home markets, and in this sense, EM countries were almost forced to join the global market (Aharoni, 2014). As a result, competition in EM home countries has increased whilst the international business market is growing even faster than domestic economic growth in many places (Contractor, 2013). Under these circumstances, EM MNEs, faced with declining domestic market share, intensified market competition, low market demand and falling prices at home, view the ‘highly integrated’ world market as a new opportunity to expand their

business as an alternative to their home market (Holtbrugge and Kreppel, 2012). In this way, globalisation works as both push and pull factor for EM OFDI whilst DM hosts' 'more developed market' or 'more abundant market opportunities' can attract EM OFDI as additional pull factors. Such market opportunities for EMs in DM host countries can include niche market opportunities such as customers of 'sunset' industries/firms, or new kinds of market opportunities such as higher-end customers, which are often limited in the EM home countries (Luo and Tung, 2007). Several cases which reflect these theories can be found in EM investment such as the Chinese firm Lenovo in US or Russian bank VTB in European countries (Holtbrugge and Kreppel, 2012). These firms were forced to go outside their home countries to look for 'market opportunities' due to competitive pressure and lack of these 'opportunities' in their home countries, whilst the door to alternative markets, where these opportunities are available (such as DM hosts) was already wide open owing to the globalisation trend (*ibid*, p.23).

Here, the market opportunities which EM MNEs search for in DM hosts can be understood as 'resources' within the adapted RBV framework. Together with 'innovation seeking' motivation, Yamakawa, *et al.* (2008) also suggested further that the 'market' of DM host can be regarded as a kind of resource for EM MNEs' 'learning strategy' following Mathews (2006)'s LLL paradigm. They argue that EM firms can build capabilities and experiences to operate in global markets by being able to adapt products and services to specific customer needs through market opportunities in DM hosts, such as dealing with customers who have sophisticated and individual requirements, and by learning from those opportunities (Elango and Pattnaik, 2007 cited in Yamakawa *et al.*, 2008; Holtbrugge and Kreppel, 2012). Here, the capabilities and experiences EM firms build through FDI can consist of EM firms resource base in Grant's (1991) 'Strategy Analysis' model, and in this way, these market opportunities can be understood as 'resources' which can "replenish, augment and upgrade"

EM firms' resource base (see Figure 3 in Section 3.4.1). In fact, many EM MNEs' selection of DM hosts with market seeking motivations do not show conventional 'market seeking OFDI pattern' such as starting from nearer markets and moving gradually to further ones but rather demonstrate radical behaviour aiming at strategic market opportunities through which they can develop their firms' capabilities and competitive advantages to compete in other markets (a list of examples can be found in Holtbrugge and Kreppel, 2012, p.18-19). The following quote from Zhang Ruimin, CEO of Haier, provides further logic to this approach:

We go to easier markets after we first penetrate difficult markets such as the United States and Europe. These are much bigger markets...and we believe that if we can succeed here, we can succeed in easier markets [...]. If we can effectively compete in the mature markets...we can surely take the markets in the developing countries without much effort [...]. (Palepu *et al.*, 2005, p. 11 cited in Holtbrugge and Kreppel, 2012).

Within this context, this study also assumes that one of the determinants of EM OFDI into a DM such as the UK is market opportunity, which helps EM firms to develop their own competitive advantages which are lacking in their home markets. Reflecting the discussions on 'distinct' market resource EM MNEs may seek in a DM host, and the importance of the influence of both push and pull factors, the second hypothesis is suggested as following:

H₂: 'Market seeking' motivation is a positive significant determinant of EM OFDI into the UK.

5.2.3. Institution seeking EM OFDI: applying institutional theory within adapted RBV framework

Similar to the logical process of 'market seeking motivation' hypothesis development, this study proposes its final hypothesis regarding 'institution seeking motivation', assuming that

EM firms' underdeveloped home country institutions work as push factors whilst the corresponding aspects of the UK (a DM host), *i.e.*, better developed institutions, work as pull factors. Facing the push factors of institutional constraints at home, EM firms, which possess a global outlook as an external condition of the highly globalised world, can consider the relatively better-developed institutions for a more favourable business environment in a DM host as a 'source of advantage' and thus be motivated to seek them through FDIs in these host countries (Mathews, 2006). In this sense, this study assumes that these institutional advantages can also be regarded as 'resources'.

The first step for developing this 'institution seeking motivation' hypothesis is to consider whether institutions can be constraints or advantages to firms in such a way that firms are encouraged or attracted by 'institutions' in their FDI decisions. For this, as discussed in the previous chapter, New Institutional Economics (NIE) provides a useful theoretical framework for understanding how an institutional structure and its enforcement can influence costs of various transactions within the structure. Based on the NIE theory, "the efficient solution of neoclassical economics" can only be obtained when the transaction is costless (Coase, 1960 cited in North, 1990, p.15). However, a given institutional structure causes "underlying costs of transacting" within the structure and in this way, institutions can work as constraints affecting "the performance of the economy by their effect on the costs of exchange and production" (North, 1990, p.5). Here, not only the institutional structure *per se* but also how effectively the institutions are enforced is critical in defining transaction costs. Economic activities are complex "function(s) of legal rules, organisational forms, enforcement, and norms of behaviour" and therefore, transaction costs involved in these activities are affected by "the mix between the formal protection of rights and individual attempts to capture rights or devote resources to individual protection of their own rights" (*ibid*, p.33). Although important economic institutions such as 'property rights' are formally decided and enforced

by political institutions such as laws or policies, at the same time “the existing structure of rights and the character of their enforcement define the existing wealth-maximising opportunities of the players” (*ibid*, p.47). Therefore, the extent of the players’ economic and political diversity of interests can often affect the formal rules and their structure inversely as well. In this way, institutions related to the economy, can be created and enforced by certain groups with bargaining power for their own advantages rather than for facilitating the whole economy. Within this context, NIE theory, particularly the one of Economic historian perspective such as North (1990)’s, argues that economic development is defined by institutional structure and its enforcement. Although the main focus of this thesis does not lie on the relationship between ‘institutions’ and ‘economic development’ *per se*, these ideas that EMs and DMs, fundamentally divided into different categories by their ‘development status’, differ greatly in their institutional structures can support the assumption that institutions can work constructively or destructively to affect economic matters, and can further justify this thesis’ assumption that institutions can work as constraints or attractive aspects behind decisions for EM OFDI.

As implied by NIE’s focus on the influence of institutions and their enforcement on economic development, within an NIE framework, “state” is an important analysis unit through which studies can explore its influence on various activities within its reach including economic ones such as firms’ FDI decisions. North (1990) dedicated a significant amount of his book to this subject with theoretical analysis at the country level. In his discussions regarding why developing countries (termed as Third World countries in his book) and developed countries differ, he argues that this is because of “a function of the institutional structure in each”, which consists of “the motivation of the players (their utility function), the complexity of the environment, and the ability of the players to decipher and order the environment (measurement and enforcement)”, and this determines “how well institutions solve the

problems of coordination and production” (p.34). For example, in developed countries, “effective judicial systems” are well established and therefore, “one has some confidence that the merits of a case rather than private payoffs will influence outcomes” (*ibid*, p.59). In contrast, ambiguity of legal doctrine which causes a measurement cost, lack of market supportive institutions, uncertainty of contracts (e.g., insecure property rights) due to inefficient business procedures coupled with political hazards (e.g., political instability, unpredictable regulatory changes, corruption and bribes) in developing countries including EMs all raise transaction costs in these countries deterring their economic development (North, 1990, p.59; Luo and Tung, 2007, p.486; Langlois, 2013). Therefore, for EMs the “weak, non-existent, or dysfunctional institutions” and the ineffective and uncertain measurement and enforcement of those institutions, all of which are destructive to the functioning of markets in EM home countries, are constraints and “hard to ignore” for EM firms (Langlois 2013, p.18). At the same time, the relatively better developed institutional environment for well-functioning market mechanism and market development in DM host countries can motivate EM firms to enter these countries. Dunning (2006) also supported this perspective, commenting that “certainly the institutional capabilities of firms and the incentive structure and enforcement mechanisms of home and host countries are increasingly affecting...MNE activity and particularly...that of Third World MNEs” (p.4).

In addition to these institutional factors in EM homes and DM hosts, EM MNEs face another important factor influencing their FDI decisions; the highly globalised world as demonstrated in Figure 5. Whilst these institutional constraints are still present, EM countries have recently experienced radical globalisation and liberalisation processes. The issue for EM countries is that these processes cause additional costs caused by transformation of institutional structure as “[t]here is nothing automatic about the evolution” of an institutional framework (North 1990, p.34) due to the ‘built-in rigidity’ nature of institutions (North, 2005). Moreover, this

trend not only intensifies competition in EM home countries but also exposes EM firms to global market competition. Therefore it is likely that, particularly in the short-term, there is a “misalignment” between EM countries’ institutional environments and the business requirements of EM firms caused by globalisation (Witt and Lewin, 2007). Firms will respond to this misalignment in several ways, but one of them can be a “partial or complete departure from the business system” (*ibid*, p.10). This so-called ‘escapism’ motivation can be a persuasive option for EM firms. The underdeveloped institutional framework “which determines the basic structure of production” such as “lack of legal protection for property rights, poor enforcement of commercial laws, non-transparent judicial and litigation systems, underdeveloped factor markets, and inefficient market intermediaries” together with “barriers to entry, and monopolistic restrictions” in EM home countries can deter the profit-maximizing firms in these countries from having long-term horizons, and in turn, this deters their potential for growth (North, 1990, p.67; Luo and Tung, 2007, p.486). Even for the EM firms which possess skills and networks within their home countries, these domestic institutional constraints are always costly to deal with, both in financial and time terms (Luo and Tung, 2007, p.486). In this situation, EM firms, facing the external condition of a highly globalised world, which rather encourages them to go abroad, can choose ‘escaping’ from their home institutional constraints as a strategic response to the question “how to play the game”, when the rules of the game at home are not only destructive for their long-term growth but also are changing and not completely known (Peng *et al.*, 2008 p. 924). Oliver (1991) also suggested ‘avoidance’ as one of the possible ‘organisational attempts’ at a strategic response to the institutional environment when organisations try to “preclude the necessity of conformity...(of the)...institutional rules or expectations” (p.154). In this way, EM firms’ home country institutional constraints work as push factors of their FDI decision.

Some studies on EM OFDI have also concluded that this kind of ‘escapism’ motivation for EM MNEs is important (e.g., Child and Rodrigues, 2005; Boisot and Meyer, 2008; Yamakawa *et al.*, 2008; Gammeltoft *et al.*, 2012; Ning and Sutherland, 2012). These studies agree that EM MNEs’ ‘escapism’ motivation reflects not only the push factors of their home country institutional constraints but also EM MNEs’ motivation for seeking for host countries which can offer a better institutional environment. Therefore, the assumption regarding the ‘escapism’ motivation of EM OFDI becomes more plausible in the case of EM OFDI into DMs as there is a relatively more advanced institutional environment in the hosts, which agrees with EM firms’ business requirements. This ‘pull factor’ aspect, the relatively superior institutional environment in DM hosts as a source of attraction to EM OFDI, can be understood from EM firms’ strategic approaches to resources within the RBV framework in Chapter 3. Applying RBV framework’s ‘slack resources’ concept, which is crucial for firms’ performance and long-term survival, to strategy analysis, Grant (1991) argues that firms’ strategy stage involves “identify[ing] resource gaps which need to be filled” and “invest[ing] in replenishing, augmenting and upgrading the firm’s resource base”, leading to the resource selection stage (p.115). Within this theoretical framework, broadening the resource concept to ‘well-developed institutions’ which are constructive for well-functioning markets and for firms’ performance within the market, the “weak, non-existent, or dysfunctional institutions” in EM home countries can be regarded as resource gaps which need to be filled by EM firms for their long-term growth (Gammeltoft, *et al.*, 2012; Langlois 2013, p.18). Economic historians have also described the lack of ‘market-supportive institutions’ (e.g., respect for private property, contract law or other market intermediaries which facilitate a well-functioning market) as a ‘missing market’ in similar concepts, *i.e.*, ‘market-inadequacy perspective’ or ‘missing market story’ (Khanna and Palepu, 2010; Langlois, 2013). Economic development is followed by a process of filling the gap caused by the ‘missing

market’ and the reason for the difference in development levels between DMs and EMs is to be found in the EMs’ larger gap in terms of lack of ‘market-supporting institutions’ (Gammeltoft *et al.*, 2012; Langlois, 2013). Therefore, it can be assumed that in identifying this resource gap, some EM firms head toward DM hosts through FDI for the purpose of accessing the ‘better-developed institutions’ as a resource for their ‘resource selection strategy’.

The next step is to understand how ‘institutions’ act as ‘resources’. Unlike ‘escapism’ motivation, the theme of ‘better-developed institutions in a host country as a pull factor’ has received little investigation. However, some studies have provided useful insights into developing this idea. For example, Luo and Tung (2007), within their ‘Springboard’ framework, which explains EM MNEs’ systemic and recursive internalisation pattern and behaviour, argued that OFDI is used by EM MNEs as a “springboard” not only “to acquire critical resources needed to compete more effectively against their global rivals at home and abroad” but also “to reduce their vulnerability to institutional and market constraints at home” (p.484). In this way, a more efficient and transparent environment, where EM firms can reduce their vulnerability and build up competency can be a ‘source of advantage’ (Mathews, 2006; Witt and Lewin, 2007). Based on the ‘recursive behaviour’ of EM firms suggested from Luo and Tung (2007) or ‘Learning’ behaviour of EM firms from Mathews (2006)’s LLL paradigm, it may be that EM MNEs seek experience in a ‘well-structured’ market where institutions function constructively to enhance their long-term growth as assets or ‘slack resources’ which they can access and create through OFDI and leverage back home or to other foreign markets.

In addition, some studies suggest a rather abstract concept of resource. Cuervo-Cazurra and Genc (2011) suggest that a firm’s resources can be classified in two types – market and non-market resources; the latter are resources that “the firm develops and uses to interact and

operate with its environment” (Penrose, 1959 cited in Cuervo-Cazurra and Genc, 2011, p.4; Baron, 1995). For example, RBV suggests that “trustworthiness, as perceived by market intermediaries, is a critical source of competitive advantage” which firms can leverage in their interaction and operation with other markets (Barney and Hansen, 1994 cited in Luo and Tung, p.494). In this way, this ‘trustworthiness’ can be a kind of ‘non-market resource’ suggested by Cuervo-Cazurra and Genc (2011). Their arguments further support this study’s assumption that firms can regard ‘well-developed’ institutional environment and experience from the environment such as ‘building up trustworthiness’ as a resource which will be developed as their competitive advantages and assets they can leverage in home or other markets.

Based on the discussions so far, this study develops its last hypothesis of ‘institution-seeking motivation’ incorporating ‘escapism’ motivation and the motivation of seeking ‘better-developed institutions’ as a resource. This leads to hypothesis 3:

***H₃**: ‘Institution seeking’ motivation is a positive significant determinant of EM OFDI into the UK.*

5.3 Model (function and variables) and data (proxies and sources)

Prior to any analysis, setting up an appropriate model is an important step. The “causal inference is not directly accomplished when using observational data and only statistical models”, but rather, the statistical analysis of the data needs to be empirical evidence for “the causal statements...(assumed or proposed)...based on the theory of the substantive field from which the data are derived” (Frees, 2004, p.11).

The model here was developed by using the number of investment projects from the source countries as the dependent variable, the major motivations in the hypotheses developed in the previous section as explanatory variables and some traditional variables from other FDI determinant studies as control variables. Independent variables were measured prior to the investment decision as this approach helps in dealing with the endogeneity problem in examining macroeconomic flows (Baltagi 1995 cited in Agiomirgianakis *et al.* 2003; Benacek *et al.*, 2000). Denoting the source country by i and the year by t , the following panel analysis model was developed:

$$FDI_{it} = \alpha_i + \beta_1 Strat_{it} + \beta_2 Market_{it} + \beta_3 Inst_{it} + \beta_4 Ex_{it} + \beta_5 UKregion_{it} + \beta_6 Trade_{it} + \varepsilon_{it}$$

The dependent variable FDI_{it} denotes inward FDI from EM source counties to the UK, and $Strat_{it}$, $Market_{it}$ and $Inst_{it}$ are explanatory variables representing three motivations assumed in the hypotheses (H_1 , H_2 and H_3) whilst Ex_{it} , $UKregion_{it}$ and $Trade_{it}$ are control variables. Detailed discussions regarding each variable, proxies and the data for the proxies will be addressed in the following sub-sections.

In terms of data collection, data sources are chosen both with reference to previous studies and consideration of the data availability and the consistency in such a way that data can be collected for as many variables as possible from the same data source. Regarding data, this study will use secondary data. It is now quite common for researchers to use secondary datasets, the quality of which has improved greatly in recent years, particularly for macro-level studies such as international comparative studies with data on a large number of countries and/or trends over time (Hakim, 1987; Vartanian, 2010). Although secondary data can include various forms of information which are available in texts, tables, graphs, and appendices of the published articles as well as large-scale datasets such as National Census or

international surveys, the use of numeric secondary data such as census, opinion polls or aggregate forms of administrative records, is particularly common (Church, 2001; Smith, 2008; Vartanian, 2010). In practice, FDI determinant studies widely use aggregated secondary data, particularly macro-level indicators, sourced from the databases of international organisations such as the World Bank, IMF etc. or other national statistical databases in their data analyses (e.g., Bevan and Estrin, 2004; Carstensen and Toubal, 2004; Dunning *et al.*, 2008; Alon, 2010). This helps researchers save time and expense whilst allowing them to analyse a relatively large sample of data and apply advanced statistical techniques such as panel data, as aggregate data tends to have less concern regarding biases than sample survey results (Benacek *et al.*, 2000; Vartanian, 2010). Following their examples, this study has also collected data from various large-scale databases of well-established international organisations for the proxies of variables in the panel analysis model.

5.3.1. Dependent variable

The dependent variable is inward FDI projects to the UK from 10 EM FDI source countries (Brazil, China, Czech Republic, India, Malaysia, Russia, South Africa, Turkey, UAE and Ukraine) into the UK between 2003 and 2012. These 10 EM countries are chosen in reference to the discussions regarding the definition of EM in Section 2.1. As discussed already, it is still open to question regarding the definition of what exactly an EM country is, and thus the historical approach regarding the waves of EM OFDI lends criteria for the selection of EMs for this thesis. In this context, EMs in this thesis are newly-joined or joining EMs after the second wave of EM OFDI, such as BRICS, transition economies and some coming-back Latinas, excluding some mature EMs from the second wave, mainly

NICs. Among the EM countries based on this definition, the ones from which IFDI projects have consistently come into the UK from 2003 to 2012 were chosen and they are the 10 countries listed above.

In terms of the proxy for the dependent variable, ‘the number of Greenfield IFDI projects’ was chosen. The dependent variables in FDI determinant studies, where either regression or panel analysis are employed, vary from flows (e.g., Bevan and Estrin, 2004), stocks (e.g., Bénassy-Quéré *et al.*, 2007), the number of employees (e.g., Hill and Munday, 1992) to project numbers (e.g., Fallon and Cook, 2010). Decisions as to which proxy to choose reflect the purpose of the research question and the study, whilst other practical circumstances such as data availability also play an important role in this process (Perry, 1998; Fallon and Cook, 2010). FDI determinant studies in the host context, which focus on the host factors attracting/deterring IFDIs (e.g., IFDI policy study), tend to use IFDI flows (e.g., Resmini, 2000; Agiomirgianakis *et al.*, 2003; Bevan and Estrin, 2004) or percentage of IFDI flows to the host country GDP (e.g., Benacek *et al.*, 2000), although some prefer IFDI stock to flows in a similar context (Bénassy-Quéré *et al.*, 2007). However, this study’s research question is what drives the EM OFDI to come to the UK with the assumption that in this case, other factors from home and external environment in addition to host country factors play an equally important role as FDI determinants. Considering this, ‘IFDI project number’ is chosen for the dependent variable as this data reflects “the reality of FDI” such as physical assets and job creation, and in this way, it can be a useful proxy to understand the drivers of EM OFDI coming into the UK in a strategic way (Ernst and Young, 2011, p.30).

The most common possible shortcomings of project numbers as a variable are the possibility that it may lead to under-reporting of the real number and that the investment size may vary greatly between projects (e.g., Hill and Munday, 1992; Mudambi and Mudambi, 2005 cited in Fallon and Cook, 2010); indeed, some studies with a similar context have chosen the number

of jobs created through projects instead of project numbers in order to overcome these possible shortcomings (Fallon and Cook, 2010). However, job number itself also has a similar problem relating to ambiguity in the figure (e.g., new vs. safeguarded jobs; possible overestimation by excluding jobs lost or displaced as a result of reported job creation) (Hill and Munday, 1992; Stone and Peck, 1996), whilst empirical evidence of weak correlation between jobs created and investment project size suggests a sceptical view regarding the ‘project-job intensity’ and that of using job number as an alternative to project number to reflect the project size (Jones and Wren, 2004 cited in Fallon and Cook, 2010). At the same time, some empirical studies suggest that project number has greater explanatory power than number of jobs or other alternatives such as capital expenditure in FDI studies (Fallon and Cook, 2010). Based on the discussions so far, ‘IFDI project number’ into the UK was chosen as the proxy of the dependent variable ahead of other alternatives.

The data were sourced from the fDi Intelligent Database of the Financial Times. This source tracks approximately 95% of the major global Greenfield FDI projects as well as 80% of all smaller projects, and is considered one of the most comprehensive independent sources for FDI information (Alon, 2010, p.3; Falk, 2012). Therefore, using the data from this source can reduce the possibility of the ‘under-reported number’ problem mentioned above. The reason why only ‘Greenfield FDIs’ are included in the panel analysis is partly due to data availability and this is a limit in the data set. However, including only Greenfield investments does also bring some advantages, particularly regarding another major issue of project number as a variable – the difference between projects in terms of their size. EM OFDI carried out by Sovereign Owned Enterprises (SOEs) and Sovereign Wealth Funds (SWFs) are generally very large in size owing to strong government support (e.g. the average project value of Chinese OFDI by SOEs is \$198 million compared to \$47 million for that of private firms) (Alon, 2010, p.4), and these types of EM OFDI are often through M&As or

other strategic alliances (Lunding, 2006; Dunning *et al.*, 2008; Rogen and Hanemann, 2009; Alon, 2010; Holtbrugge and Kreppel, 2012). Thus, including only Greenfield cases can alleviate concern regarding large differences in investment size between projects in EM OFDI case.

In addition, due to the strong link of these types of EM OFDI with their home government, their motivation is also often to achieve EM government goals rather than being reflective of EM firms' own decisions (*ibid*). By including only Greenfield investments, FDI projects with special motivations influenced by political reasons rather than corporate benefits are likely to be excluded. Similarly, Luo and Tung (2007) also excluded exceptional FDI cases such as government designated ones or strategic alliances such as joint ventures where firms do not effectively control their subunits in their study on EM OFDI. Ernst and Young also support this view arguing that their data tracker only tracks Greenfield FDI projects, excluding M&A and portfolio investments as the latter often do not reflect the 'reality' of FDI (Ernst and Young, 2011).

Here, the detail of data in terms of whether the firms are SOE or private firms is not known. The important point is that regardless of the type of firm, EM 'Greenfield' investments are likely to be carried out with motivation for corporate benefits as EM OFDI designated by EM governments with 'political motivations' usually occur through M&As or strategic alliances and are therefore on average much larger than 'normal' investment projects. Therefore, it needs to be clear that this study did not intentionally exclude all EM OFDI through SOEs or SWFs, but is instead arguing that the data set consisting of only 'Greenfield' projects without 'likely-exceptional FDI cases' can be justified as still valid for investigating determinants of EM OFDI; rather, this brings some advantages such as reducing possible problems of the large differences between project sizes. To summarise, the dependent variable of the panel analysis of this study is 'EM OFDI into the UK' of which the proxy is 'the number of

Greenfield IFDI projects’ and the data are sourced from fDi Market Intelligence Data base (e.g. Alon, 2010; Falk, 2012). The following sub-section will discuss proxies and data for the explanatory variables reflecting hypotheses from the previous sections.

5.3.2. Explanatory variable

5.3.2.1. Strategic-asset seeking motivation variable

Of the three explanatory variables representing three motivations assumed in the hypotheses, $Strat_{it}$ represents the ‘strategic-asset seeking motivation’. As Alon (2010, p.11) points out, “there is no theoretically established variable best suited to capture strategic-asset seeking FDI”. Only a few studies have tried to develop this variable and they suggested ‘the number of patents’, ‘the number of science articles’ (e.g., Berry *et al.*, 2010) or ‘R&D expenditure’ (e.g., Alon, 2010; Fallon and Cook, 2010) as the proxy. This study chose ‘R&D expenditure’ data of the host, the UK, for the proxy, because this data, R&D level of the UK, reflects the characteristics of ‘strategic-asset’ in this hypothesis, which was interpreted closely in line with ‘innovation level’, better than ‘the number of patent’ or other alternatives. Alon (2010) argued that “the number of patents represent(s) well-defined technology that can be acquired by licensing, if not by FDI”, and thus, this does not represent the strategic-asset level of the host country as ‘local advantages’, whilst ‘R&D expenditure’ represents “an immobile, host country advantage” (p10). Similarly, ‘Global Competitiveness Reports’ from World Economic Forum (WEF), which report an economy’s ‘competitiveness’ across a range of areas in more than 180 countries in the world, support this view that “the level of technology available (*i.e.*, technological readiness)...in a country needs to be distinguished from the country’s ability to conduct blue-sky research and develop new technologies for innovation that expand the frontiers of knowledge (*i.e.*, innovation)” (World Economic Forum, 2012). In

this context, these reports emphasise the importance of “sufficient investment in R&D”, particularly by the private sector, for the development of the innovative level in a country (*ibid*). In addition, Alon (2010) found that ‘R&D expenditure’ data has a lower correlation issue with other FDI determinant regressors in his analysis than the alternatives. Furthermore, some traditional studies based on DM OFDI have used ‘R&D expenditure’ of these DM source countries as a proxy for their firms’ FSA level (e.g., Hughes and Oughton, 1992 cited in Faeth, 2009; Barrell and Pain, 1996). The logic of these studies that the ‘R&D expenditure’ of the DM countries can be a proxy for their firms’ FSA level also supports the view that it is plausible to use ‘R&D expenditure’ of the UK, a DM host, as a proxy for the level of its ‘strategic-asset’ which EM firms are assumed to seek within the UK.

The $Strat_{it}$ variable is unilateral by incorporating the host side’s data only, whereas other explanatory variables $Market_{it}$ and $Inst_{it}$ are bilateral to reflect data from both home and host. Firstly, this is because the ‘strategic-asset seeking’ motivation arises due to the host country’s advanced technology or innovation level in the first place (Driffield and Love 2007). Secondly, this is because ‘R&D expenditure’, which includes data on both the public and the private sectors, is not an appropriate measure of the push factor of the EM OFDI, *i.e.*, EM firms’ ‘lack of FSA’ issue or the relatively poor level of strategic-asset in EM home countries. R&D expenditure in EMs is inflated by their governments’ recently-growing spending in this area, whilst it does not necessarily reflect the level or quality of the “capacity to create knowledge and to innovate” which still differs greatly between EMs and DMs (World Economic Forum, 2008; Berry *et al.*, 2010, p.1468; Tolentino, 2012). Although a country’s progression in innovation level is strongly supported by R&D expenditure, the emphasis lies in the private sector expenditure (World Economic Forum, 2012). In addition, a country’s competitiveness in its ‘innovation’ level needs to be assessed in various relevant areas together, such as “the presence of high-quality scientific research institutions that can

generate the basic knowledge needed to build the new technologies; extensive collaboration in research and technological developments between universities and industry; and the protection of intellectual property, in addition to high levels of competition and access to venture capital and financing” (*ibid*). Many EM countries, particularly large ones such as China or Brazil where the amount of R&D expenditure is growing significantly, do not show the same level of ‘competitiveness’ in the innovation areas listed above measured by WEF in their Global Competitiveness Reports (based on the data of the Global Competitiveness Reports from 2003 to 2013). This implies that using the ‘R&D expenditure’ data in these countries as a proxy of this variable may overestimate its value, failing to reflect their true ‘innovation level’. At the same time, data regarding the UK shows consistency in both R&D expenditure data and the ‘competitiveness’ data in other innovation areas from the Global Competitiveness Reports, supporting this study’s selection of the proxy for this variable (*ibid*). All data for this variable were sourced from World Bank Indicators and the sign of this variable is expected to be positive.

5.3.2.2. Market seeking motivation variable

The $Market_{it}$ variable measures the ‘market seeking motivation’ as a determinant of the EM OFDI into the UK. ‘Market’ has been found to be relevant in several empirical FDI studies having a positive effect on FDI, although the results have not always been statistically significant. A substantial number of studies from the 1960s to the 2000s which have used this variable can be found in Table 1 of Chakrabarti (2001, p.91). Previous studies have mainly used either absolute GDP or per-capita GDP as the proxy of the market. There are some studies which used Gross National Product (GNP) or per-capita GNP as measures of market size (e.g., Scaperlanda and Mauer, 1969; Schneider and Frey, 1985 cited in Faeth,

2009). However, GNP, which captures earnings by nationals in foreign locations, overestimates the market for the products of multinationals located in the home country, whilst it excludes the earnings of foreigners located in the home country, underestimating the market for the products of multinationals located in the home country, and thus, scholars argue that GNP is a less appropriate measure of the market than GDP (Chakrabarti, 2001, p.98). In choosing between per-capita GDP and absolute GDP, the two variables actually measure different aspects of the market, *i.e.*, “per-capita GDP reflects the income level whilst absolute GDP reflects the size of the whole economy” (*ibid*). For example, studies on ‘market size’ *per se*, such as the ones investigating the relationship between IFDI and economic development particularly from a developing country host perspective, suggest that large populations can be an important attraction point depending on the products of the foreign investment (e.g., Bevan and Estrin, 2004); in such a case, using per-capita GDP may underestimate the host country’s attractiveness (Chakrabarti, 2001). On the other hand, per-capita GDP, reflecting consumer purchasing power, has been widely used as a proxy for market potential in terms of ‘market demand’ in FDI determinant studies (Root and Ahmed, 1979 cited in Chakrabarti, 2001). Therefore, per-capita GDP will be a better proxy for ‘market potential’ in this study’s case than absolute GDP of which the focus is more on population rather than income level, since the ‘markets’ EM OFDI are assumed to seek in a DM host are ‘market opportunities and potential’ missing at home (Agiomirgianakis *et al.*, 2003; Bénassy-Quéré *et al.*, 2007; Alon, 2010). In addition, per-capita GDP has also been used for the proxy of a country’s IDP stage in studies aiming at measuring the effect of “a well-developed existing market infrastructure” in the host in terms of IFDI (e.g., Barrell and Pain, 1998; De Menil, 1999 cited in Agiomirgianakis *et al.*, 2003 p.6). Based on these arguments, this study chose the per-capita GDP of the UK for the proxy of the ‘market potential’ or ‘market opportunity’ EM MNEs may seek in the UK.

At the same time, whilst per-capita GDP “best reflects overall market demand”, the relatively low per-capita GDP of EM countries can be a proxy for ‘underdeveloped market’ or ‘limited market demand’ in these countries, which is assumed to work as ‘push factor’ of EM OFDI (Alon, 2010, p.8; Holtbrugge and Kreppel, 2012). Understanding the determinants of EM OFDI into the DM requires analysis of both pull and push factors from the DM host and the EM home. In this sense, per-capita GDP of both host and home is used to measure the ‘market seeking motivation’ hypothesis. Whilst their expected signs are the opposite, this study incorporates these two variables into one proxy, ‘per-capita GDP gap’, calculated as the absolute difference in per-capita GDP of the host, the UK, and of EM sources’ home countries, for the $Market_{it}$ variable. ‘Per-capita GDP gap’ has also been used as a proxy for “the difference in relative factor endowments” in some studies, which is in line with this study’s assumption that resource endowments in the host and the home countries work as pull and push factors in EM OFDI analysis (Carstensen and Toubal, 2004, p.9). The sign of this variable is expected to be positive and data were sourced from World Bank Indicators.

5.3.2.3. Institutional seeking motivation variable

Finally, the $Inst_{it}$ variable is a measure of institution seeking motivation. There are a number of FDI determinant studies which include ‘institutional factors’ of the developing market hosts (e.g., Benasek *et al.*, 2000; Bevan and Estrin, 2004; Bénassy-Quéré *et al.*, 2007; Buckley *et al.*, 2008). In these studies, ‘institutional variables’ of the hosts are introduced to measure the ‘risk level’ of these developing countries as the ‘underdeveloped institutions’ in these hosts are considered to be a negative impact on IFDI decisions into these countries. However, the focus of this study is FDIs to the DM host from EM sources, and therefore the ‘institutional factors’ included in the model come from a very different perspective. Whilst

‘better-developed institutions’ in DM hosts are assumed to be positively associated with EM OFDI decisions, the ‘underdeveloped institutions’ in EM source countries, at the same time, are also assumed to work as ‘push factors’ influencing EM OFDI decisions to DM hosts. Therefore, like the $Market_{it}$ variable, this variable is also developed in its ‘bilateral’ form, incorporating both ‘push’ and ‘pull’ factors together, as the ‘institutional difference’ between EM source countries and the UK. In deciding the proxy and data for this variable, institutions are understood from NIE perspective as in the earlier hypothesis development. It needs to be noted that this study’s main purpose is not the effect of ‘institutional difference’ *per se* on FDI, but rather this variable takes this ‘form’ in the process of incorporating both push and pull institutional factors of EM home and DM host, although the results may still have some implications for further discussions on the direct relationship between ‘institutional difference’ and FDI issues.

The next step is to decide the appropriate proxy for this variable. From the NIE perspective it is the institutional structure and its enforcement that decides the ‘transaction cost’ and shapes the economic development of a country. In this context, based on NIE theory, the difference between the DM and the EM countries, which North (1990, p.69) described as ‘Third World countries’, is mainly caused by the “contrasting...institutional framework” between these two. Therefore, the proxy for the ‘institution seeking motivation’ variable can be developed in a way that can reflect different institutional aspects affecting investment environment for businesses in EM home or DM host markets. For this, North *et al.* (2009)’s ‘open access’ and ‘natural state’ concepts, which describe the interrelationship between institutional arrangement and economic development clearly, can provide a useful insight by implying that DMs can be categorised under the former system with EMs under the latter. Based on NIE, “institutions are not necessarily or even usually created to be socially efficient; rather they, or at least the formal rules, are created to serve the interests of those with the bargaining

power to devise new rules” (North, 1990, p.16). Connecting this argument to North *et al.* (2009)’s argument on ‘open access’ and ‘natural state’, a DM or ‘open access’ system has “competitive structures of efficient markets...(which)...leads the parties to arrive costlessly at the solution that maximizes aggregate income”, whilst in EMs or ‘natural state’ systems, often “the private objectives of those with the bargaining strength to alter institutions” come before development of “socially efficient” institutions (North, 1990, p.15-16). Therefore, following North *et al.* (2009), for a country’s economic development, a transition from a ‘natural state’ to an ‘open access’ system is necessary, and this transition requires “a set of changes in...(both)...the polity that...secures impersonal political rights and legal support for a wide range of organisational forms, including...economic organisation... (and)...the economy that ensure open entry and competition in many markets, free movement of goods and individuals over space and time, the ability to create organisations to pursue economic opportunities, protection of property rights, and prohibitions on the use of violence to obtain resources and goods or to coerce others” (p.2). In this context, the proxy for the ‘institution seeking motivation’ variable, which aims at measuring the different institutional aspects affecting investment environment for businesses between EM home and DM host markets, can be developed in order to measure the difference between ‘open access’ and ‘natural state’ institutional systems.

For the data to measure this proxy, this study introduces the ‘Economic Freedom’ concept, which has been defined as “the degree to which a market economy is in place, where the central components are voluntary exchange, free competition, and protection of persons and property” (Gwartney and Lawson 2002, p.5 cited in Berggren, 2003, p.193). ‘Economic Freedom’ closely reflects the key difference between the ‘open access’ system from that of the ‘natural state’, *i.e.*, ensuring individuals’ fair and open market participation. Following North *et al.* (2009, p.111), “the political system...(in an open access order)...defines property

rights, enforces contracts, and creates the rule of law necessary for markets” in a way that it causes cost on the incumbent party when it seeks to maintain their power through rent-seeking or limiting others’ access to market participation. Thus, the quantified data of ‘Economic freedom’, *i.e.*, ‘the index of Economic Freedom’, can be useful data to measure the difference between ‘open access’ (the DM host) and ‘natural state’ (EM source countries) institutional systems, the proxy of the ‘institution seeking motivation’ in this study. The index of Economic Freedom has been developed by both the Fraser Institute and The Heritage Foundation in cooperation with the Wall Street Journal. Both indices have been published since the mid-1990s, although the Fraser Institute covers some earlier data for 1970, 1975, 1980, 1985 and 1990 by combining various relevant data from other data sources (Berggren, 2003). Conversely, the Heritage Foundation measures the index directly (*ibid*). Thus, whilst the former allows research across a longer time span, the latter is better in terms of recent updated data as the former relies on other data sources. With regard to other strengths and weaknesses, whilst the index of the Heritage Foundation can be rather subjective, that of the Fraser Institute may have consistency issues between data collection as they are from different sources. In fact, there have not been many studies which have used ‘Economic Freedom’ in different countries in FDI or IB studies, implying that there is not a ‘typical’ or ‘traditional’ proxy for this aspect (a very few examples can be Arslan, *et al.*, 2014 using Fraser Institute index ; Caetano and Caleiro, 2009 using Heritage Foundation index). Most importantly, these indices are similar in their overall implications, which suggest that choosing one index over the other would not bring huge differences (Berggren, 2003). In light of these issues, this study chose the index of The Heritage Foundation for the proxy of the ‘institutional seeking motivation’ variable due to the recent data availability.

This index of Economic Freedom of The Heritage Foundation was launched in 1995 based on Adam Smith’s theory that “when institutions protect the liberty of individuals, greater

prosperity results for all”, and therefore, aims at indicating how well institutions are developed and work so that the market does its function most efficiently (Heritage Foundation, 2013). In this way, the fundamental goal of the development of this index and the areas it aims to measure is closely in line with this study’s argument for this variable. Data are available for 185 countries and the areas of this index cover the following: 1) Rule of law (property rights, freedom from corruption); 2) Limited Government involvement (fiscal freedom, government spending); 3) Regulatory Efficiency (business freedom, labour freedom, monetary freedom); and 4) Open Markets (trade freedom, investment freedom and financial freedom). For the measurement of this index, a grade with a scale from 0 to 100 is calculated, where 100 represents the maximum score, and this is assigned to a country for each area listed above, and the average score of these grades is the ‘Index of Economic Freedom’ of a country. Using these index data, this study created a proxy of the ‘absolute difference’ in the index scores of the host, the UK, and of the source countries for $Inst_{it}$ variable to incorporate both host institutional pull and home institutional push factors. Similar approaches to this, using the ‘absolute difference’ of index scores for measuring ‘institutional difference’, are found in other studies also, although the index they used and the subjects of the studies differ from this study (e.g. Xu *et al.*, 2004; Chao and Kumar, 2010). The expected sign of $Inst_{it}$ variable is positive.

5.3.3. Control variable

To complete the model, this section discusses details of the control variables. The selection of control variables was made based on traditional variables from other FDI determinant studies. Commonly used variables in these studies are ‘market’, ‘factor cost’, ‘exchange rate’, ‘trade related variables’ and ‘membership of free trade agreement area’ in the relevant

cases (Chakrabarti, 2001; Faeth, 2009). Amongst these variables, some of them are already included in the ‘explanatory variables’. This study includes the rest of the variables as ‘control variable’ apart from ‘factor cost’. ‘Factor cost’ is often included in studies which assume ‘efficiency seeking motivation’ of FDIs, which is not considered as ‘relevant’ in EM OFDI to DM cases (e.g., Alon, 2010). This aspect may be still relevant even in EM OFDI to DM cases if more than one DM host country is included in the data. However, as this study includes only one DM host, the UK, where the factor cost is much higher than in all of the source countries in the data, ‘factor cost’ is not included in this study’s model.

The first control variable is that of ‘exchange rate fluctuation’. From the perspective that “FDI could also be seen as a diversification of real assets by MNEs”, home country’s currency appreciation relative to host country’s currency may lead MNEs to invest in the ‘relatively cheaper’ host country whilst the opposite case may lead MNEs to postpone their foreign investment (Grosse and Trevino, 1996; Xing and Wan, 2004 cited in Fallon and Cook, 2010; Faeth, 2009, p.182; Alon, 2010). Similarly, many studies also agree that mitigating exchange rate risk often becomes an important motive for FDI (e.g., Rugman 1979 cited in Benacek *et al.*, 2000; Bevan and Estrin, 2004; Busch, 2007 cited in Holtbrugge and Kreppel, 2012; Faeth, 2009). Dunning (2001) also points to exchange rate changes as one of the significant ‘exogenous changes’ which can possibly affect FDI decisions. Several empirical studies on FDI determinants have included ‘exchange rate’ as a variable affecting FDI (e.g., Chakrabarti, 2001; Agiomirgianakis *et al.*, 2003; Bevan and Estrin, 2004; Fallon and Cook, 2010). A few empirical studies on EM FDI determinants, mainly focusing on the Chinese case, also use an ‘exchange rate’ variable in their models (e.g., Buckley *et al.*, 2008; Alon, 2010; Kolstad and Wiig, 2012). Following these examples, Ex_{it} is included as the ‘exchange rate’ control variable and measures the bilateral exchange rate between the host and the source countries based on the theoretical perspective viewing the exchange rate as a

‘relative price’ of currency (e.g., Dewenter, 1995 cited in Faeth, 2009; Takagi and Shi, 2011). For the proxy, the ratio of official exchange rate (local currency units relative to the US dollar) of the source country to sterling, sourced from World Bank Indicators, is used. One of the possible weaknesses of this proxy is that the calculation of the exchange rate ratio used the values of individual currency adjusted by US dollar. Therefore, the proxy may be over- or under-estimated against the actual ‘relative price’ of a source country currency compared to sterling depending on the strength of the relevant currency, including sterling, against the US dollar. Although the World Bank provides ‘Real effective exchange rate index’ as an alternative, the data are not available for all the source countries included in this study’s panel data set. It is expected to be positively related to the dependent variable.

Secondly, “host country involvement...in free trade agreements, customs unions, and supra-national economic structures” has been pointed out as a determinant for FDI in the relevant literature (Bevan and Estrin, 2004, p.779). This is because “membership of a free-trade area” and “proximity to a large market such as the European Union (EU)” in either/both of geographical or/and cultural terms work as positive externalities for the host country by reducing overall transaction costs for trade with fellow member countries, and therefore, can expand the scope of the potential market for source firms when an investment is made in the host country (Benacek *et al.*, 2000, p.5). Chakrabarti (2001) also argues for the importance of considering hidden FDI motivations related to these kinds of potential markets which is not captured by a variable for market motivation serving the host country market only. He further argues that introducing relevant variables into the model can capture some “potential complementarity and/or substitutability between these two motivations” (p.164). Particularly, EU membership is one good example, and in fact there are several studies which has found that EU membership has affected FDI decision into European host countries (e.g., Brainard, 1997 cited in Faeth, 2009; Benacek *et al.*, 2000; Bevan and Estrin, 2004).

Considering that the host country of this study, the UK, is a member of the EU, it can be assumed that some IFDI into the UK has been made in this context. Reflecting these discussions, $UKregion_{it}$, is introduced as another control variable for the UK's EU membership. In deciding to measure this proxy, most of the reference studies which took EU membership as a variable affecting FDI decision used a dummy variable indicating the host countries' assent into the EU. However, these studies are mostly on IFDIs into transitions economies in Eastern Europe, a feature not appropriate for this study's case. Therefore, this study has chosen the UK's share of total intra-EU trade, as the assumed effect of the UK's EU membership here is to enhance firms' potential future trade opportunity with other EU member countries when they undertake investments in the UK. As market share reflects how actively the country is involved in the market, this proxy can reflect the extent of the UK's economic involvement in the EU context and can measure the source countries' interest in the UK in this regard. The expected sign is positive.

The last control variable is $Trade_{it}$, representing the degree of trade involvement of the EM source countries entering the UK. Although this variable has usually been used to measure the openness of the host country for the proxy of the country's liberal trade regime, in this study, this aspect is incorporated into a part of the $Inst_{it}$ variable (Resmini, 2000; Chakrabarti, 2001; Agiomirgianakis *et al.*, 2003). In terms of source countries' trade experience, their export experience has been regarded as a possible determinant of their FDI as this can lead to a 'trade-off' between export and FDI (Bevan and Estrin, 2004; Alon, 2010). However, a number of studies on EM OFDI suggest that for EM source countries, their experience of internationalisation through trade involvement in both exports and imports, particularly with the host countries, may encourage their OFDI (Mathews, 2006; Buckley *et al.*, 2008; Yamakawa *et al.*, 2008; Alon, 2010; Holtbrugge and Kreppel, 2012).

Thus, $Trade_{it}$ is included as a control for EM source countries' trade experiences, and it is measured as the sum of export and import as a percentage of GDP. This variable is expected to carry a positive sign. Table 8 summarises the variables and their proxies, expected signs and data sources.

Table 8. Summary of variables

Variable	Measurement	Sign	Function	Source
<i>FDI</i>	Number of Greenfield FDI project into the UK	n/a	Dependent Variable	fDi intelligence
<i>Strat</i>	R&D expenditure of the UK (% of GDP)	+	Strategic-asset seeking motivation	World Bank Group indicator
<i>Market</i>	Absolute difference between per-capita GDP figures of EM sources and the UK	+	Market seeking motivation	World Bank Group indicator
<i>Inst</i>	Absolute difference in the 'Index of Economic Freedom' scores of the source countries and the UK	+	Institution seeking motivation	Heritage Foundation
<i>Ex</i>	The ratio of official exchange rate (local currency units relative to the US dollar) of the source countries to the sterling	+	Control for exchange rate fluctuation	World Bank Group indicator
<i>UKregion</i>	The UK's share of total intra-EU trade	+	Control for membership of free trade agreement	World Bank Group indicator
<i>Trade</i>	Source countries' exports and imports (% of GDP)	+	Control for internalisation experience of the source countries	World Bank Group indicator

Source: Autor's summary

5.4 Data analysis and results

5.4.1. Overview and summary of analysis results

Panel analysis was carried out to estimate the equation specified in the previous section. First and foremost, regarding multicollinearity of the model, the simple correlation matrix of the independent variables does not demonstrate any strong correlation, which studies generally agree to be larger correlation coefficient than around 0.7 (e.g., Weber and Lamb, 1970 cited in Taylor, 1990; Mason *et al.*, 1983; Dancey and Reidy, 2004) between independent variables (Table 9).

Table 9. Correlation matrix of independent variables

	$Strat_{it}$	$Market_{it}$	$Inst_{it}$	Ex_{it}	$UKregion_{it}$	$Trade_{it}$
$Strat_{it}$	1.00					
$Market_{it}$	-0.13	1.00				
$Inst_{it}$	-0.20	0.55	1.00			
Ex_{it}	-0.08	0.23	0.27	1.00		
$UKregion_{it}$	-0.33	-0.1	0.15	0.05	1.00	
$Trade_{it}$	-0.03	-0.34	-0.44	-0.23	-0.03	1.00

Source: Author's summary

The Variation Inflation Factor (VIF) test, which is a widely-used formal tool to measure the degree of multicollinearity (O'Brien, 2007), was also undertaken and the results are shown in Table 10.

Table 10. VIF scores of the independent variables

Variable	VIF	1/VIF
$Strat_{it}$	1.51	0.66
$Market_{it}$	12.22	0.08
$Inst_{it}$	5.94	0.17
Ex_{it}	21.37	0.05
$UKregion_{it}$	1.62	0.62
$Trade_{it}$	26.58	0.04
Mean VIF	12.61	

Source: Author's summary

The rule of thumb regarding the VIF test is that VIF scores of around 10 or higher (or equivalently, $1/\text{VIF}$, tolerance scores, of .10 or lower) may imply multicollinearity (Jeeshim and Kucc, 2002; Williams, 2014). Therefore, based on its VIF test results, this model demonstrates possible multicollinearity, particularly with Ex_{it} and $Trade_{it}$ variables'. In terms of the consequence of the multicollinearity, even an extreme one (so long as it is not perfect), the results do not violate Ordinary Least Squares (OLS) assumptions, and therefore, OLS estimates are still unbiased and efficient (Williams, 2014). Nevertheless, as the multicollinearity can inflate the standard errors of the coefficients of the variables, it can in turn affect the confidence intervals for coefficients and t-statistics in such a way that it will be harder to gain statistically significant and stable coefficients (Allison, 2012; Williams, 2014).

However, although VIF test is a useful tool for measuring multicollinearity, interpretation of the results needs to proceed with caution (O'Brien, 2007). Regarding some of the large VIF scores of this study's model, this may be due to the statistical package this study used – Stata, as the fixed-effects models estimated by using this statistical package tend to create extremely large VIF scores (Jacobs, 2005). The reason is quite straightforward. In order to use Stata's regression diagnostics including VIF test, a standard OLS model needs to be run. Therefore, for the VIF test for a fixed effect model, users need to run a OLS with case-specific dummies included in the model, which generate identical estimates to the ones from using direct command for a fixed effect model such as 'xtreg, fe', and then use VIF test command (*i.e.*, estat vif) such as done in this study (*ibid*; Park, 2011). In this way, VIF scores for variables in a fixed effect model can be inflated due to the additional dummy variables included for the test when using this statistical package. In fact, in the original results of VIF scores of this study's model including all the dummy variables, several dummies (4 out of 10) show quite high VIF scores (around 20 or above) and it is these

dummies that inflated at least the mean VIF score of this study's model (the original results can be found in Appendix 1).

Moreover, considering that the problematic consequence of multicollinearity is mainly 'unstable' statistical significance of the relevant coefficients, Allison (2012) argues that so long as the variables with high scores of VIF are control variables, which are not 'the variables of interest', and these variables are not collinear with 'the variables of interest', the high VIF scores can be 'ignored' as in these cases the coefficients of 'the variables of interest' are not affected whilst the control variables' performance as control remains valid. As can be seen in Table 10, it is control variables, Ex_{it} and $Trade_{it}$, that show high scores of VIF in this study's model. In addition, both correlation matrix of variables (Table 9) and that of coefficients, which is another widely-used tool of measuring multicollinearity (Table 11), demonstrate that there is no strong correlation between these control variables and major hypothesis explanatory variables, 'the variables of interest' in this study, $Strat_{it}$, $Market_{it}$ and $Inst_{it}$ (Allison, 2012; Williams, 2014).

Table 11. Correlation matrix between coefficients

	$Strat_{it}$	$Market_{it}$	$Inst_{it}$	Ex_{it}	$UKregion_{it}$	$Trade_{it}$
$Strat_{it}$	1.00					
$Market_{it}$	0.28	1.00				
$Inst_{it}$	0.16	-0.35	1.00			
Ex_{it}	0.16	-0.23	-0.01	1.00		
$UKregion_{it}$	0.33	0.49	-0.33	-0.19	1.00	
$Trade_{it}$	0.11	-0.26	0.08	0.08	-0.22	1.00

Source: Author's summary

Considering the discussions regarding VIF scores so far and the fact that other multicollinearity measurement tools such as correlation matrix of variables and coefficients do not demonstrate any strong correlation issues, the best way for dealing with the possible

multicollinearity suggested by the VIF test results of this model may be “simply realising that multicollinearity...(may be)...present, and be(ing) aware of its consequences” rather than altering the model (Williams, 2014, p.4). This is because other ways to deal with multicollinearity by either eliminating one or more of the independent variables or by adding new variables often bring additional problems. Dropping variable can possibly raise a question regarding the theoretical framework within which the model was developed and cause ‘specification error’ such as ‘omitted variable bias’, which can be even worse than multicollinearity (O’Brien, 2007; Williams, 2014, p.4), whilst adding an irrelevant new variable can cause ‘over-fitting’ of the model (Jeeshim and Kucc, 2002, p.5). Considering discussions so far, the author decided to keep the original model of this study, as the possibility of the multicollinearity of this model was only suggested by high VIF scores of the control variables, which are not ‘the variables of interest’ in this model.

The Hausman specification test results show that the chi-square score is small enough not to reject the null hypothesis implying that random effects may be preferred over fixed effects. However, the results at the same time warn that data fails to meet the asymptotic assumptions, which is not a great surprise considering the relatively small data size in this study (Park 2011). In addition, considering the characteristic of this model where a set of countries is the major unit of observation and inferences, the fixed effects model, which is appropriate for the analysis focusing on a specific set of N subjects, will be more suitable for this study’s analysis (Baltagi, 2005). Therefore, a fixed effect model was used due to the small size of the data and the given model’s specific characteristics. The F-test for this model supports a significant fixed group effect.

Tests for heteroscedasticity were also undertaken. The null hypothesis regarding homoscedasticity was rejected, implying the possibility of heteroscedasticity. This problem can be resolved by using ‘robust standard errors’ (Nicoletti, 2011). Table 12 reports the

coefficients and t-statistics of the fixed effect model estimated with ‘robust standard errors’. There are not any significant difference between the estimators with original and robust standard errors in terms of statistical significance and signs of coefficient. The original results can be found in the appendix (Appendix 2).

Table 12. Determinants of Greenfield EM OFDI into the UK

Independent variables	FDI
<i>Strat</i>	33.14** (2.15)
<i>Market</i>	0.01 (0.88)
<i>Inst</i>	0.39** (2.21)
<i>Ex</i>	0.04 (0.35)
<i>UKregion</i>	-0.36 (-1.26)
<i>Trade</i>	0.17** (3.18)
Number of obs	100
F-test (model)	4.53***
Effect Test	11.33***

Note: The parentheses contain the t-statistics; author’s summary

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

In addition to using the project number, this study further carried out panel analysis of this model using the logarithm of FDI as this helps transform a highly skewed variable into one that is more approximately normal, and therefore often helps refine the results when the data set is relatively small (Benacek *et al.*, 2000; Benoit, 2011). However, in using the logarithm

of FDI, the form of $\ln(\text{FDI})$ leads to a drop in the number of observations with a potential selection bias, and therefore, $\ln(a + \text{FDI})$ was used instead, following the most commonly used practice (Bénassy-Quéré *et al.*, 2007). This study used $a = 1$ as it allows setting to zero the dependent variable when FDI project number is zero (*ibid*). The heteroscedasticity test for this model does not demonstrate heteroscedasticity issue and the F-test results of the logarithm model also support a significant fixed group effect in the mode (Table 13). The statistical significances and the signs of the coefficients of the variables did not change greatly apart from that the coefficient of *UKregion* variable, which was not statistically significant in the original model, but became statistically significant in the logarithm model whilst its sign is consistent between the two models.

Table 13. Determinants of Greenfield EM OFDI into the UK, logarithm model

Independent variables	FDI
<i>Strat</i>	3.73** (2.17)
<i>Market</i>	0.001 (0.86)
<i>Inst</i>	0.03* (1.75)
<i>Ex</i>	0.004 (0.33)
<i>UKregion</i>	-0.08** (-2.55)
<i>Trade</i>	0.02*** (2.70)
Number of obs	100
F-test (model)	5.38***
Effect Test	12.55***

Note: The parentheses contain the t-statistics; author's summary

** $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$*

5.4.2. Findings and Discussions on the results

The results of the explanatory variables are consistent with all coefficients showing the expected signs, although the coefficient of the variable $Market_{it}$ is statistically insignificant in both models. The following subsections will discuss the findings and results regarding each explanatory variable on each hypothesis.

5.4.2.1. Strategic-asset seeking motivation

First and foremost, the positive and statistically significant coefficients of $Strat_{it}$ variable in both models support the first hypothesis that the strategic-asset level of the UK, measured by the proxy of the R&D expenditure level of the UK, is an important determinant of EM OFDI coming into the UK. This result agrees with several studies where strategic-asset seeking motivation of EM OFDI to DM host is assumed and observed either by a hypothesis or by proposition (e.g., Deng, 2007; Luo and Tung, 2007; Alon, 2010; Holtbrugge and Kreppel, 2012). Particularly, the noticeably large coefficient of this variable implies the importance of this motivation of EM OFDI to the DM hosts, further strengthening previous studies' findings.

Although the proxy 'R&D expenditure' is only a measure in 'quantitative' terms, there are several supplementary data which suggest that increases in the UK's R&D expenditure in quantity terms are likely to be accompanied by quality improvement. Firstly, the recent 'UK attractiveness survey' reports (available from 2011) of Ernst and Young have shown that

‘technology’ has always been one of the top 3 attractions of the UK to foreign investors in recent years and moreover, their 2014 report shows that this aspect will remain as a major attraction for potential investors in the nearer future (for the succeeding three years) (Ernst and Young, 2011; 2012; 2013; 2014).

Secondly, ‘Executive Opinion Survey’ results on the UK’s innovative capacity in the ‘Global Competitiveness Reports’ from the World Economic Forum (WEF) are also closely in line with the results of this study’s analysis, supporting the hypothesis regarding the advanced ‘strategic-asset level’ of the UK as an attraction to EM OFDI. The WEF’s measurement of a country’s competitiveness is conducted through ‘Executive Opinion Surveys’ which reflect the opinions of firms’ ultimate decision makers (including those of MNEs) as to an economy’s ‘competitiveness’ across a range of areas, including infrastructure, business, education, innovations etc. For this reason, some studies have used these survey data as a main source for developing and measuring statistical variables in their relevant studies (e.g., Xu *et al.*, 2004). Although this study used other data sources to develop variables and proxies, which have been discussed to be most suitable for this study’s hypotheses and model (see 5.2.1), these survey data can supplement this study’s results with some qualitative aspects which cannot be directly measured by ‘R&D expenditure data’. In these survey results, the UK has always ranked highly in the opinion of the respondent executives regarding a country’s innovative competitiveness (World Economic Forum, from 2003 to 2012). Particularly, the UK has continuously demonstrated high scores in qualitative aspects of innovative competitiveness category such as ‘Quality of scientific research institutions’ and ‘University-industry collaboration in R&D’ with average score of almost 6 (5.91) and 5.25 out of 7 points respectively, and with a general upward trend over time (*ibid*). In their reports WEF considers these qualitative aspects as key to gauging a country’s innovation intensity, as these aspects reflect well the quality of “private-sector initiative” and “the

interaction between private-sector strategies and public-sector policies” in a country’s innovation output (World Economic Forum, 2003, p.91).

Moreover, in addition to the ‘innovation’ aspect, there are also questions in these reports regarding a country’s competitiveness in areas which directly address specific types of ‘strategic-asset’ suggested in other studies, such as marketing and management expertise (Makino *et al.*, 2002); the ‘Nature of competitive advantage’ in reference to the competitiveness of a country’s companies in international markets in terms of their unique products and processes; ‘Extent of marketing’ referring to the competitiveness of a country in sophisticated marketing tools and techniques; and ‘Reliance on professional management’ referring to the degree of a country’s senior management positions’ being held by professional managers with superior qualifications are examples of these (World Economic Forum, from 2002 to 2012). Again, the UK has demonstrated very strong performances in these areas throughout the same period as the one of this study’s data set (2003-2012) with the average scores of 5.74, 6.21 and 6.06 in ‘Nature of competitive advantage’, ‘Extent of marketing’ and ‘Reliance on professional management’ respectively. These additional data demonstrate that in the opinion of executives doing business in the UK, there is high positive feeling about the innovation level and its qualitative aspects together with the level of the UK’s other ‘strategic-assets’. This supplements the panel analysis results of this study in the hypothesis that the host country’s competitive advantage or innovation level, *i.e.*, ‘the strategic-asset’ level, is an important determinant of EM OFDI coming to the UK.

5.4.2.2. Market seeking motivation

Regarding the second hypothesis, the coefficients of *Market_{it}* variable, the per-capita GDP gap between the UK and the EM source countries, showed positive signs in both models.

The expected positive sign of this variable suggests that both the pull factor of the host (high per-capita GDP of the UK representing high market potential of the UK) and the push factor of the home (low per-capita GDP of the EM source countries representing low overall market demand at home), may have an influence on EM OFDI entering the UK as assumed in the second hypothesis. From the host country perspective, the results from the panel analysis supports the positive effect of market variables such as per-capita GDP or GDP in many other studies (Chakrabarti, 2001; Faeth, 2009).

However, the market seeking motivation hypothesis cannot be fully supported as the coefficient of $Market_{it}$ variable is not statistically significant in either model. A possible reason may be that the quantitative proxy may not distinguish well the ‘market seeking motivation’ of EM OFDI into DM hosts from traditional ‘market’ variables. Similar motivations of EM OFDI such as opportunity-seeking motivation from Luo and Tung (2007) or ‘market opportunity seeking motivations’ from Yamakawa *et al.* (2008) and Holtbrugge and Kreppel (2012) were suggested and observed within the qualitative research data such as interviews and case studies. To the author’s knowledge, no attempt to try and develop a quantitative variable of this distinctive EM MNEs’ market or market opportunity seeking motivation in DM hosts has yet to be done. Considering these discussions, the panel analysis results of this market-seeking motivation variable can offer some suggestions and challenges to improve the proxy to more appropriately reflect this aspect, whilst it seems that at least the influence direction (*i.e.*, positive effect) of this motivation is supported by this quantitative analysis.

Another possible reason for the statistically insignificant coefficient of this variable is that the proxy, per-capita GDP itself, may have ambiguity in its effect on IFDI from the host country perspective. High per-capita GDP reflects “both high purchasing power of consumers and

high real wages” (Bénassy-Quéré *et al.*, 2007, p.771). In fact, although empirical studies generally show the positive effect of market variables, such as per-capita GDP of the host, on IFDI from the host country perspective, the results are not always significant (e.g., Scaperlanda and Mauer, 1969; Goldberg, 1972 cited in Faeth, 2009; Bénassy-Quéré *et al.*, 2007; other examples in Chakrabarti, 2001, p.91). Nevertheless, these studies agree that ‘market variable’, which could be a potentially important determinant of FDI, should be incorporated into the relevant analysis models (Faeth, 2009). In the case of per-capita GDP in particular, omitting this variable could lead to spurious results when there is an ‘institutional variable’ included in the same model as well, such as in this study’s model. This is due to the potentially high correlation between institutions and per-capita GDP (Bénassy-Quéré *et al.*, 2007). In this case, when excluding this variable, “a significant coefficient of the institutional variable could in fact cover the hidden, positive impact of GDP per capita” (*ibid*, p.771). Therefore, considering the fact that the direction of this variable agrees with many other studies’ and discussions regarding methodological issues so far, removing this variable from the panel analysis model of this thesis due to its statistical insignificance may cause different problems in itself.

In conclusion, although this study’s results also revealed similar issues to previous studies regarding the proxy, the statistical analysis results of this study are closely in line with previous studies and further strengthen the theoretical assumption of ‘market’ effect on FDI decisions. Moreover, considering that the proxy of this study differs from other traditional studies’ as it incorporates both pull and push factors of ‘market’ aspects in the host and home countries rather than only using ‘host’ country data, this result can broaden the scope of the ‘market’ variable to consider the home country aspect as well in future studies.

5.4.2.3. *Institution seeking motivation*

The last explanatory variable, $Inst_{it}$, shows positive and statistically significant coefficients in both models. Therefore, this result supports the hypothesis regarding institution seeking motivation of EM OFDI into the UK and that the institutional constraints of EM home countries will work as push factors for the EM OFDI whilst the ‘better-developed institutions’ in the host (the UK) will ‘pull’ the EM OFDI as an important determinant. This result is closely in line with previous studies and is supported by other supplementary data. . From EM home countries’ perspective, the ‘escapism’ motivation of EM OFDI has been suggested in several studies (e.g., Child and Rodrigues, 2005; Boisot and Meyer, 2008; Yamakawa *et al.*, 2008; Ning and Sutherland, 2012), and thus this study’s finding not only agrees with, but also empirically supports their suggestions. At the same time the UK’s “stability and transparency of the political, legal and regulatory environment” (the institutional aspects) has consistently been within the top 3 attractions of the UK to foreign investors along with ‘technology’ in recent years according to Ernst and Young’s ‘the UK attractiveness’ surveys (Ernst and Young, 2011; 2012; 2013). Further, this was considered as a major potential attraction for further investment (Ernst and Young, 2014). The results therefore, support the assumption regarding the UK’s ‘better-developed institutions’ as pull factor.

Looking at the details of the institution seeking variable data, the scores of ‘Index of Economic Freedom’ for the UK and the EM source countries, and the patterns of individual figures further consolidate the assumption behind the ‘institution seeking motivation’ hypothesis regarding both institutional push and pull factors between EM homes and the UK host. Table 14 demonstrates the areas of ‘Index of Economic Freedom’ where the UK scored significantly highly (80-90 out of 100), whilst the EM source countries show noticeably low scores between 2003 and 2012. These main areas are namely, ‘Property rights’, ‘Corruption’,

‘Business Freedom’, ‘Investment Freedom’ and ‘Financial Freedom’. Although some countries show a relatively high score in a very few of these areas (e.g., Financial Freedom in Czech Republic; Business Freedom in Turkey and South Africa), overall, there is a great discrepancy between the EM source countries scores and the UK’s in these areas. This can be seen even more clearly when comparing the average scores of the UK and of the EM source countries together. On average, the former are mostly double the latter in all areas (Table 14).

Table 14. The areas of Economic Freedom Index where the UK and the EM sources show the greater differences in their scores

	Property right	Freedom from corruption	Business Freedom	Investment Freedom	Financial Freedom
The UK	89	82.9	90.25	86	87
Brazil	50	37.2	58.86	49.5	49
China	24	34.5	50.28	28	30
Czech R	69	44.7	66.12	70	84
India	50	30.8	47.94	41.5	34
Malaysia	50.5	49.3	70.4	36	39
Russia	28	24.1	56.24	32.5	36
South Africa	50	46.9	71.93	52.5	60
Turkey	50	37.9	64.2	55.5	49
Ukraine	30	24.2	46.86	27	43
UAE	51.5	64.1	61.66	37.5	42
EM sources together	45.3	39.31	53.2	43	46
Differences between the UK and EM sources on average	43.7	43.53	37.05	43	41

Source: The Heritage Foundation; Author’s calculation

These five areas measure the institutional aspects that NIE theories emphasise as being most critical in well-functioning markets and play the most fundamental role in economic development. The first two components – ‘Property rights’ and ‘Freedom from corruption’ – consist of the ‘Rule of law’ area from the Index of Economic Freedom, with the former assessing “the ability of individuals to accumulate private property, secured by clear laws that

are fully enforced by the state” and with the latter, the degree of corruption in a country (The Heritage Foundation, 2013). More specifically, the former measures “the degree to which a country’s laws protect private property rights...(and)...its government enforces those laws”, whilst the latter measures “the independence of the judiciary, the existence of corruption within the judiciary, and the ability of individuals and businesses to enforce contracts” (*ibid*). These components have been highlighted as key factors affecting the economic performance of agents in the country in NIE theoretical framework. Economic historians including North (1990) particularly emphasise the importance of a well-developed and secured ‘property rights’ and the destructive effect of political hazards such as “unpredictable regulatory changes, corruption and bribes”, as these influence long-term growth within a country (Luo and Tung, 2007, p.484). This is because not only are legal institutions for formal protection of the individual rights important but also the enforcement of these institutional structures define the transaction costs of various contracts in the country.

At the same time, other market-supporting institutions such as ‘efficient regulatory or legal systems for business’ are also considered as important for an efficient market within the NIE theoretical framework (North, 1990, p.59; Langlois, 2013). In the Index of Economic Freedom, ‘Business Freedom’, as one component of the ‘Regulatory Efficiency’ index, demonstrates the regulatory efficiency for business such as the degree of “the overall burden of regulation as well as the efficiency of government in the regulatory process”, which in turn affects firms’ “ability to start, operate, and close a business” within the country (Heritage Foundation, 2013).

The last two components, ‘Investment Freedom’ and ‘Financial Freedom’ are part of the ‘Open markets’ index, which demonstrates the degree of barriers to ‘market entry’. As the taxonomy implies ‘Investment Freedom’ measures the extent of “constraints on the flow of

investment capital” representing how much “[i]ndividuals and firms would be allowed to move their resources into and out of specific activities, both internally and across the country’s borders, without restriction”(ibid). ‘Financial Freedom’ is “a measure of banking efficiency as well as a measure of independence from government control and interference in the financial sector” (ibid). The concepts of ‘open access’ and ‘natural state’ in NIE theory, based on which the proxy of the ‘institution seeking variable’ was developed, describe the major difference between the institutional structures of EMs and DMs as “open entry...(in terms that the entry is not limited to anyone)...and competition in markets” (North *et al.*, 2009, p.2). ‘Investment Freedom’ and ‘Financial Freedom’ measure this key difference between ‘open access’ and ‘natural state’, with the former measuring the degree of openness of the entry to investment market/opportunity and the latter measuring the degree of openness of the access to major sources of investment and business – capital/finance.

Therefore, EM source countries’ low scores and the UK’s high scores for these Index components justify firstly, the fundamental assumption behind the institution-seeking hypothesis regarding EM home countries’ institutional constraints and the UK’s ‘relatively better developed institutional environment’ and secondly, this study’s use of the ‘open access’ and ‘natural state’ concepts as the theoretical background for describing institutional differences between DMs and EMs. Although there are some exceptional figures amongst EM source countries’ scores, such as the ‘Financial Freedom’ score of the Czech Republic, the significantly lower overall average score of the EM source countries implies that ‘low degree’ of economic freedom in these critical institutional aspects is the usual case. Moreover, all of the source countries demonstrate a very low degree of economic freedom in the key fundamental institutional aspects which decide the quality of a country’s institutional structure and enforcement, *i.e.*, ‘property rights’ and ‘freedom from corruption’. Whether property right is well protected does not just depend on having relevant laws in the legal

structure, but needs to be assessed by the effectiveness of the law enforcement. Here, ‘corruption’ plays a critical role in ‘effective enforcement’ of laws or other formal institutions, as it brings “insecurity and uncertainty into economic relationships” (Heritage Foundation, 2013). When there is a high level of corruption in the society, some ‘special-interest groups’ tend to create “clientelistic relationships” with political powers so that they can affect institutional outcomes to enhance their own interest such as acquiring and exerting ‘de-facto property rights’, which are likely “neither necessarily collectively useful for society or for sustainable economic development” (McFaul, 1995 cited in North, 2005; Neyapti, 2010, p.27). Therefore, a high level of corruption in a country “erodes economic freedom” in the country (Heritage Foundation, 2013) regardless of whether other supportive formal institutions such as business regulation are available, which will in turn work as ‘institutional constraints’ for economic agents in the country including firms (Oslon, 2000). As can be seen in Table 14, the level of ‘Freedom from corruption’ is significantly low in all EM source countries. In this way, the figures of Table 14 also supplement the positive and statistically significant empirical results of the ‘institution seeking motivation hypothesis’ regarding the push and pull institutional factors from EM homes and the host, the UK, as a determinant of EM OFDI to the UK.

Another implication from the empirical result of the $Inst_{it}$ variable comes from this variable’s denotation. As it denotes ‘institutional difference’ between EM sources and the UK, this result provides a new measure of the ‘institutional difference’ in FDI studies. Following Whitely (1999)’s types of business systems, appreciated as “the most elaborate and systematic attempt to classify countries by institutional characteristics” (Hotho 2009, p.10), the ‘Compartmentalised’ business system, mainly found in Anglo-Saxon economies including the UK, and the ‘State organised’ business system, mostly found in the EMs, demonstrate the most contrasting institutional features amongst various business systems.

Therefore, the positive sign of this variable implies that ‘a very different institutional environment of the UK’ from that of the home countries positively affects EMs’ OFDI decision to come into the UK, which challenges the conventional idea of ‘institutional difference’ as a negative factor in FDI studies. In fact, some studies go as far to suggest that institutional distance can be an attractive point in locational decisions at the pre-investment stage (e.g., Dunning, 1988; Parkhe, 1991; Shenkar, 2001). What these studies here argued is that the ‘distance’ or ‘difference’ can be a useful source of “unique, diverse, and non-redundant knowledge (Kogut 1983; Rosenkopf and Almeida 2003 cited in Elia *et al.*, 2014). Note that the focus of these studies is ‘distance’ or ‘difference’ rather than ‘advantage’ vs. ‘disadvantage’ between home and host country markets whilst this study’s main purpose is not investigation of the effect of ‘institutional distance’ or ‘difference’ *per se*. However, this study’s empirical result of positive effect of ‘difference’ between host and home countries on FDI decisions can provide additional empirical support for the above studies.

5.4.2.4. Control variables

In contrast to the results of the explanatory variables, which generally showed the expected signs, the results of the control variables demonstrated a more mixed picture. Firstly, the coefficients of the exchange rate control variable, Ex_{it} , in the two models showed the correct sign but are not statistically significant. Although this variable has been widely suggested as a determinant of FDI in both theoretical and empirical studies (example references can be found in 5.3.3), there is no agreement as to how exchange rates are related to FDI theoretically (Sayek, 2009). Empirical results have also been inconsistent with cases of both positive and negative effect and insignificant coefficients (Table 15).

Table 15. Observed effect of exchange rate on FDI in different studies

Positive effect	Negative effect	Insignificant
Edwards (1990)	Caves (1989)	Blonigen (1997)
Bénassy-Quéré <i>et al.</i> (2001)	Froot and Stein (1991)	Tuman and Emmert (1999)
	Blonigen (1995)	Dewenter (1995)
	Blonigen and Feenstra (1996)	

Source: Chakrabarti (2001); Faeth (2009)

This may be due to the mixed theoretical assumptions as to the effect of the exchange rate on FDI decision. Whilst exchange rate can be interpreted as a ‘relative price’ of the home currency to the host currency with assumption of the positive relationship of ‘relatively cheaper host currency to home currency’ and FDI, ‘the currency area hypothesis’ theory, on the contrary, explains that ‘a weak currency of a country’ can be associated with increased exchange rate risk and can inversely affect FDI decisions (Chakrabarti, 2001; Takagi and Shi, 2011). Another ‘mixed theoretical view’ regarding the effect of exchange rate on FDI is that of the ‘Revenue effect and Cost effect’ theory, which explains two channels through which exchange rates affect a host country’s competitiveness and in turn FDI decisions to this host (Chakrabarti, 2003, p.163). In the ‘Revenue effect’ theory, a stronger currency of the host country relative to that of the source country can be interpreted as an indicator of greater ‘competitiveness’, as this can make the sales of products in the host more attractive to MNEs. However, at the same time, following the Cost effect theory, a ‘strong currency’ in the host raises the prices of immobile factors, and in this way a ‘strong currency’ of the host has a negative effect on FDIs, counter-balancing the Revenue Effect (*ibid*). Therefore, the direction of the effect of exchange rate on FDI is not always consistent but depends on which of the two effects dominates.

In addition, some scholars suggest that ‘aggregate FDI variable’ may not have a clear relationship with the exchange variable. For example, Russ (2007) showed that allowing for the heterogeneity of FDI types (e.g., vertical vs. horizontal) improved the results regarding the relationship between uncertainty in relation to the exchange rate (Sayek, 2009). Quoting

Russ (2007) and his suggestion of using ‘disaggregated data of FDI’, Sayek (2009) also saw an improved result regarding motivation of FDI related to ‘exchange rate’. It follows, therefore, that the insignificant result of the exchange variable in several studies including this study may also be due to ‘aggregate FDI data’.

Secondly, the coefficients of $UKregion_{it}$ variable showed the opposite sign to that expected, whilst the statistical significances between the two models are not consistent. The coefficient of $UKregion_{it}$ variable is statistically significant only in the logarithm model. Therefore, the direct interpretation of the results is that the higher the UK’s share of intra-EU trade results in a decline in percentage of EM OFDI into the UK, whilst the negative impact of the UK share of the intra-EU trade on the number of EM OFDI projects into the UK cannot be supported by the empirical results due to statistical insignificance. The negative influence direction of $UKregion_{it}$ variable on EM OFDI to the UK is a somewhat surprising result, but it may be related to the economic crisis in the Eurozone which occurred during the period of the data set. The host country’s involvement in the free trade area can influence source countries’ investment decision as this could lead to future trade opportunities with other member countries with few trade barriers. This is why this study used the UK’s share of intra-EU trade, which reflects how actively the UK is involved in the EU market, as a proxy. Considering these aspects, it may be that the high involvement of the UK in the EU economy, the latter which is suffering from the economic crisis, was regarded as risky and thus had a negative effect on EM OFDI decisions. In fact, Ernst and Young’s 2012 surveys regarding the attractiveness of the UK as an investment location provide useful results closely in line with this assumption. Regarding the question of “whether the UK’s status as an influential member of the EU but outside the euro makes it an attractive place to invest”, 64% of all respondents said yes either definitely or probably (Ernst and Young, 2012, p.30). In addition, Ernst and Young (2013) noted that “[i]nvestors from elsewhere in the world may look more

favourably on the UK compared with the stressed euro states, because of the perceived lower risks of UK investments” (p.16). These survey results imply that the economic crisis in the Eurozone is considered as a negative factor for potential investors coming to Europe whilst the fact that the UK has kept certain distances from other EU countries, such as using Sterling instead of the Euro, is regarded as a benefit. In this way, the assumption regarding the negative coefficient sign of the $UKregion_{it}$ variable that the UK’s high involvement (its large share of intra-EU trade) might be considered as risky, gains some support.

Lastly, the result of the $Trade_{it}$ variable shows a statistically significant and positive coefficient as expected. Based on this result, the degree of trade involvement of the EM source countries has a positive and significant effect on their FDI decisions. EMs are still mainly focused on the manufacturing industry where trade is an important route to internationalisation; the implication here is that EM firms’ internationalisation experience through trade has a critical influence on their OFDI decisions (Alon, 2010).

5.5 Summary of the first part analysis

This chapter has examined the determinants of EM Greenfield FDI into the UK. Within the theoretical framework described in Figure 5, where RBV was applied from an EM OFDI perspective supplemented with NIE (see section 3.3.3), detailed hypotheses were developed. The first hypothesis concerned ‘strategic-asset seeking’ motivation following examples from previous studies on EM OFDI. However, in this hypothesis, ‘strategic-asset’ referred to ‘strategic-asset level’ or ‘innovation level’ rather than specific tangible assets. This study also proposed ‘market seeking’ and ‘institution seeking’ motivations as hypotheses by broadening the concept of ‘resource’ to ‘market’ or ‘better business environment’. The ‘market seeking’ motivation here is more about seeking opportunities to access new kinds of

market which are limited at home and are relatively more abundant in the DM host. Furthermore, by applying institutional theory within the ‘adapted RBV framework’, this study developed a hypothesis of ‘institution seeking’ motivation for EM OFDI with the assumption that the institutional constraints EM firms are experiencing at home work as a push factor for EM MNEs, whilst ‘market supportive institutions’ in the DM host may attract EM OFDI as pull factors.

This study then developed a model to test these hypotheses through panel analysis considering the importance of an appropriate model to carry out panel analysis effectively. The dependent variable was the number of Greenfield FDI projects from 10 EM source countries into the UK between 2003 and 2012, incorporating three major motivations in three hypotheses as explanatory variables into the model. For the proxies of the explanatory variables, R&D expenditure, per-capita GDP and Index of Economic Freedom were used for strategic-asset, market and institution seeking motivation variables respectively. Here, market and institution seeking motivation variables were developed in a bilateral form to incorporate both push and pull factors of the home and host country of EM OFDI into the UK. The model controlled for exchange rate, the UK’s EU membership, and source firms’ home countries’ trade experience. For the proxies of the control variables, the ratio of official exchange rate of the source countries to the sterling, the UK’s share of total intra-EU trade and source countries’ export and imports as % of GDP were used respectively.

The analysis results revealed the expected sign for the explanatory variables, implying that the motivations regarding both push and pull factors of EM home markets and the UK respectively have the expected influence on EM OFDI into the UK. However, the ‘market seeking motivation’ hypothesis cannot be supported due to its statistical insignificance. It may be due to the ambiguity of the proxy (per-capita GDP), which has been the case in other studies, or that the quantitative proxy may not capture the distinguished market seeking

motivation of EM OFDI into DM hosts well. On the other hand, the results regarding control variables demonstrated a mixed picture. Only the $Trade_{it}$ variable demonstrated the expected result in terms of sign and statistical significance, whilst the coefficient of Ex_{it} variable showed a positive sign as expected but was statistically insignificant and the result of $UKregion_{it}$ variable was statistically significant in the logarithm model but with the opposite sign to that expected. Regarding the result of the coefficient of Ex_{it} variable, in fact, there is no agreement as to how exchange rates are related to FDI both theoretically (Sayek, 2009) and empirically (Chakrabarti, 2001; Faeth, 2009). The results of $UKregion_{it}$ variable were somewhat surprising as the coefficient produced results opposite to those expected in terms of its sign. It may be the case that EM source countries consider the high involvement of the UK in the Eurozone (the share of the UK in intra-EU trade), which has suffered from economic crisis during the same period of time as this study's data set's, as having a negative impact on their investment plans.

This panel analysis completes the first part of the study. The following chapter, a parallel analysis chapter, uses case analysis for the purpose of methodological triangulation in order to investigate the second research question.

Ch.6 THE INFLUENCING FACTORS ON EM OFDI IN THE UK: Case analysis of FDI from EMs in the West Midlands

6.1. Introduction

This chapter addresses the second sub-question, ‘what are the influencing factors of subsequent investment decision of EM firms within the UK?’, investigating in what manner the entry stage determinants of EM OFDI and other factors faced by the EM firms at the operational stage in the DM host country affect their further investment decisions in the host.

This part of the study has the following aims:

- 1) To supplement quantitative analysis results with qualitative analysis
- 2) To complete the picture of inward FDI by including M&A data analysis of EM firms in the UK
- 3) To extend the scope of the study to include ‘influencing factors of expansionary or re-investment decision’ by investigating post-investment decisions (here, the post-investment decisions can include both expansionary or re-investment decisions *per se* and other decisions such as closing down the investment project or ownership change, which can indirectly suggest factors related to expansionary or re-investment decisions).

To achieve these purposes, the analysis of this sub-question will be carried out via a case analysis at the firm and regional level (the West Midlands) covering the pre- and post-

investment stages as the research scope. As discussed in detail in the methodology chapter, ‘case analysis’ here refers to an “all-encompassing research strategy” covering the whole process of addressing the relevant research question, *i.e.*, developing theoretical assumptions (propositions), determining specific data collection methods and analysis of the data rather than mere data collection and analysis ‘method’ (Yin, 1994; 2012). For the specific data collection method for the case analysis this thesis selected interviews and secondary data collection, whilst the specific analysis method employed was ‘content analysis.’ Detailed discussions regarding the process of the ‘case analysis’ and specific stages of data collection and analysis will be dealt with in the relevant sections following.

The chapter is constructed as follows: this introduction section is followed by the second section (6.2) discussing adjustment of framework to develop propositions (6.2.1 and 6.2.2). The third section (6.3) describes the case analysis design (6.3.1) and data collection process (6.3.2.) with discussions on interviews (6.3.3.) and secondary data analysis (6.3.4). The following section (6.4) is a main analysis section providing the overview of the data (6.4.1) and analysis process (6.4.2) and discussions on the findings from the analysis (6.4.3). The final section is a summary section.

6.2 Adjustment of framework

Although ‘case analysis’, like other many qualitative research methodologies, can be carried out in an ‘explorative’ or ‘theory-building’ way without any theory-based-set propositions in an inductive manner, it can at the same time be conducted to extend and challenge a perspective from relevant theory, possibly even emulating a hypothesis-testing approach as a deductive approach (Yin, 2012, p.9). The latter approach may limit the researcher’s ability to make discoveries, but certainly brings advantages by providing a foundational “story about

why acts, events, structures and thoughts occur” in the relevant cases (Sutton and Staw, 1995, p.378 cited in Yin, 2012, p.9). Particularly, considering this study’s methodological triangulation purpose and choice of ‘multiple-case analysis’, having propositions developed based on hypotheses and analysis results from panel analysis and relevant FDI theories will be appropriate. Here, the process of setting up propositions provides direction for the research in terms of inductive or deductive approach rather than an exclusive list of assumptions. Berg (2001) emphasises the ‘openness’ of researchers in their qualitative research in order to utilise its advantages fully although they set definitions or rules for distinguishing between different categories or concepts in respect to theory. These ‘theoretical assumptions’ act as guidelines for the research, but at the same time can be revised throughout the research processes such as data collection or analysis as the data and analysis results may not cover certain propositions but may instead provide new propositions (*ibid*). The following sub-sections will focus on developing propositions to address the research question through the case analysis.

6.2.1. Influencing factors of EM firms’ investment decision into the region: Looking into national, regional and firm factors separately

As the major purpose of this part of the study is to consolidate the findings from the panel analysis through ‘methodological triangulation’ and to supplement the study on ‘determinants of EM OFDI into the UK’ with data on M&A cases, which were missing in the panel data set, the first set of propositions for the case analysis are the same as the hypotheses from the panel analysis. However, as the fundamental approaches towards the research question or subject differ greatly between quantitative and qualitative researches, the hypotheses also needed to be adjusted by using terms such as ‘influencing factors’ rather than ‘determinants’

when they were re-written as propositions which were reflected in the interview questions. The following are the re-written hypotheses from the panel analysis as propositions:

Proposition 1-1: Strategic-asset level of the UK was an influencing factor in EM firms' investment decision to come to the UK.

Proposition 1-2: EM firms' home country market constraints were a push factor in influencing EM firms' foreign investment decision.

Proposition 1-3: The UK's advanced market condition was an attractiveness factor in EM firms' investment decision to come to the UK.

Proposition 1-4: EM firms' home country institutional constraints were a push factor in EM firms' foreign investment decision.

Proposition 1-5: The UK's advanced institutional environment was an attractiveness factor for EM firms' investment decision to come to the UK.

At the same time, as case analysis enables researchers to obtain 'in-depth' data on specific cases, the focus of this part of the study will be narrowed down to the regional and individual firm level factors. Therefore, additional propositions which can reflect these aspects are required. Here, propositions will be developed under the same assumptions which derived the hypotheses in the first part: for EM firms, as latecomers to the globalised world, their FDI motivation is likely to be to catch up in the globalisation process and for this, their behaviours tend to be recursive as Mathews (2006)'s LLL paradigm describes, which in turn affects their investment decisions. Under this assumption, the first additional proposition is in regard to the influence of EM firms' previous internationalisation experience on their investment decision, reflecting firm-specific characteristics and history. In fact, EM firms' 'trade

experience' was included in the panel analysis model as a control variable and the statistically significant and positive coefficient of this variable implies that EM firms' trade experience influences their FDI decision; however, due to data availability this variable only proxies EM firms' 'general trade experience' rather than their direct relationship with the host or other trade partner. Therefore, the EM firms' internationalisation experience in this proposition includes a wider range of experience including not only these firms' trade with, and foreign investment in the host, (the UK), but also business experiences of these firms with the UK firms in their home countries prior to their OFDI to the UK. As Gammeltoft *et al.* (2012) noted, "outward and inward internationalisations are dynamically linked" and in fact, "often outward internationalisation is preceded by a learning period where the firm engages in different forms of inward internationalisation" including both trade (import) or other strategic alliance or licensing experience (p.178). For example, Filatotchev *et al.* (2007) found that Asian NICs sought target markets with strong economic, cultural and historic links with the parent company in general (cited in Gubbi *et al.*, 2010, p.413) and Holtbrugge and Kreppel (2012) found that some well-known EM firms (e.g., Gazprom; Lenovo) leveraged their learning from the international business experience (e.g., Joint Venture or business partnership) with established DM firms in their home markets to influence their FDI decisions and processes. Yamakawa *et al.* (2008) also suggested similar propositions, namely that the involvement of venture capital from DMs as investors in EM home market and EM firms' strategic alliance experience with DM firms at home will motivate new EM ventures to invest in DMs. They further argue that the EM firms' 'previous international business experience' with DM firms is not limited to ones in EM home countries but experiences in the DM host or even in other third countries can also motivate EM firms' FDI decision in the relevant DM host. Summarising these arguments so far, the first additional proposition will be as following:

Proposition 1-6: EM firms' internationalisation experience through a variety of linkages with foreign firms or foreign markets influenced their investment decision into the UK.

Secondly, as the research scope is narrowed down to the 'regional' level for the case analysis, propositions regarding 'regional-specific factors' of the West Midlands which influenced EM firms' locational decision to this specific region within the UK also need to be developed. Together with learning and leveraging perspective, 'linkage' is also an important aspect in understanding EM firms' FDI decision and process (Mathews, 2006). Several studies on EM OFDI suggested that the existence of EM source countries' own ethnic groups can influence their FDI (Chen and Chen, 1998; Alon, 2010). These so-called 'relational assets' (Alon, 2010) can also be understood within NIE framework, where 'enforcement' is a key factor affecting transaction cost, as "kinship ties" can work as an efficient 'enforcement mechanism' for EM firms (North, 1990, p.55). This is because firstly, the 'diaspora business communities' can function as a 'buffer' for reducing the costs derived from 'liability of foreignness', and secondly, many EMs have a "cultural preference for transacting in less codified regimes typified by fiefs and clan networks rather than by the codified formality and impersonality of bureaucracies or markets" (Child and Rodrigues, 2005, p.406; Goldstein, 2007). For example, some studies found that 'Chinese Diasporas' in a certain country were regarded as a 'country-specific advantage' of the country behind Chinese firms' locational decision for FDI (e.g., Chen and Chen, 1998; Buckley *et al.*, 2007 cited in Alon, 2010). This is because the home country ethnic group communities can be a good source of local information and can lower transaction costs by mitigating perceptions of risk when EM firms, which relatively lack internationalisation experiences, go abroad for business (Erdener and Shapiro, 2005 cited in Alon, 2010, p.12). Following from this argument, the next proposition is as following:

Proposition 1-7: The existence of a substantial home country ethnic group community in the West Midlands influenced EM MNEs' investment decision into this region.

Another possible 'linkage'-related strategic behaviour of EM firms regarding investment decisions can be utilising the network of established EM firms from the same or a similar cultural background to the investing firms, *i.e.*, so-called 'reference group of other EM MNEs, in the host. The existence of this 'reference group' can have a positive influence on EM firms' locational decision to the particular host for their foreign investment (Li and Yao, 2010; Gammeltoft *et al.*, 2012). This logic can also be understood within NIE framework. Based on NIE theory, "informal constraints" as well as formal constraints critically influence firms' transaction cost, and therefore, firms consider the former together with the latter for their strategy to reduce transaction cost in their business decision including investment. These informal constraints EM firms may face in the host country include "reputation, broadly accepted standards of conduct...and conventions that emerge from repetitive interactions" (North, 1990 p.61). Therefore, some EM firms may find it useful to have a 'reference group' of other EM firms from the same or a similar country/cultural background which have an established reputation or some acceptable code of conduct in the host country. In fact, Knickerbocker (1973) already observed this phenomenon where firms strategically follow their rivals into new markets to maintain their oligopolistic position (Sethi, *et al.*, 2002) and more directly, Li and Yao (2010), in their empirical study on the influence of the reference group on Chinese FDI locational decision, found that the reference group of EMs in general has a positive and significant impact with the more similar reference group – Asian countries – having the stronger positive impact than the other – non-Asian countries. Based on the discussions so far, this study suggests another proposition as following:

Proposition 1-8: The presence of the reference group in the West Midlands influenced EM firms' investment decision into this region.

Lastly, there is a body of literature on FDI which suggests that local governments' incentives or favourable policies for attracting IFDIs can have positive influence on source firms' locational decision to those host regions/countries (Chen *et al.*, 2010). However, there is no complete consensus on this matter (Lim, 1983; Loree and Guisinger, 1995 cited in Nyuur, 2014). Nevertheless, it is still helpful to consider whether positive input (including incentives, favourable policies or even intangibles such as supportive relationships) from the host government or other similar body, have any influence on EM firms' foreign investment decision to the host. Therefore, the final proposition is as following:

Proposition 1-9: The positive input of the West Midlands local government for inward investment influenced EM MNEs' investment decision into this region.

6.2.2. Influencing factors of EM firms' investment decision in the UK (expansionary or re-investment decision)

This sub-section aims at developing the propositions regarding 'expansionary investment decision'. The case analysis on EM firms' investment decision in the West Midlands can not only achieve the 'methodological triangulation' but also extend the research scope to firms' post-investment stage. EM firms' post-investment decisions including expansionary or re-investment decisions in a DM host are still hardly researched (Zahra and George, 2002; Wei, 2010; Nyuur, 2014; Surdu and Mellahi 2014). Although there are a few very recent studies which investigated EM firms' post-investment stage, these studies all focused on M&A cases

and their subjects were also all regarding ‘post-acquisition performance’ (e.g., Gubbi, *et al.*, 2010; Buckley *et al.*, 2014; Sanfilippo, 2015). Therefore, this study, which tries to explore EM firms’ satisfaction and performance of their initial investment at post-entry stage but at the same time extend the scope of the research by connecting these issues to EM firms’ further investment decision at the operation stage in the host country, can provide an even greater understanding regarding EM OFDI into the DM phenomenon.

The propositions for this part will be set up to reflect factors which influence decisions of the EM firms in the West Midlands at the ‘post-investment’ or operation stage. At the same time, these propositions will be set up closely in line with the hypotheses and propositions regarding determinants of the entry investment decision, firstly as re-investment or expansionary investment would not happen without the ‘first-time investment entry’. Secondly as the determinants of FDI locational decision influence on MNEs’ strategy, performance and therefore their further FDI decisions (Davis *et al.*, 2000; Chen and Hu, 2002; Tihany *et al.*, 2005), which are a particularly significant aspect considering the distinct determinants of EM OFDI to DMs. This study has already discussed issues regarding ‘connecting pre- and post-investment stages’ and their justification in detail in Chapter 3 (See 3.4 with reference of Luo and Tung, 2007 and Surdu and Mellahi, 2014). The purpose of this sub-section is to discuss how they can be connected through the process of setting up propositions.

Here, this study will consider both ‘re-investment’ and ‘expansionary investment’ together as a proxy of the positive investment decision of a firm in its post-investment stage in the host in order to investigate what factors have influenced firms’ subsequent investment decision. This is because once FDI is made, further ‘expansionary investment’ which is a sequential investment, *i.e.*, additional to existing investment, is likely to take place as a result of “re-invested earning of the foreign affiliates” of MNEs (Lundan, 2006, p.2). At the same time,

the subsequent investment decisions at firms' operational stage may be 'decreasing' or 'closing down' the initial or current (in the case where expansionary/repeated investments have already been made) investment. In these cases, the reasons can still be investigated under the same propositions by looking into whether the influencing factors on re-investment or expansionary investment assumed in the propositions are lacking or unavailable in the host region or in the firm.

The propositions of this part will be developed by linking the motivations and determinants of EM OFDI into the UK at the entry stage with the EM firms' subsequent investment decisions in the UK at the operational stage. Kopits (1972) described MNEs' decisions regarding "capital accumulation financed through reinvestment" as the determinants of "the level of intra-firm dividend" which reflects the level of 'repatriated capital to home country or in third countries (Lundan, 2006, p.8). Developing Kopits' argument, Lundan (2006) suggests a model in which firms decide to either re-invest or repatriate their earnings depending on investment opportunities in the host country and home country conditions. In line with this model, this study's propositions regarding re-investment or expansionary investment will assume that the factors influencing EM firms' access to investment opportunities in the West Midlands will influence their post-investment decisions.

Here, a concept of 'embeddedness' can provide a useful linking point between determinants of the firms' initial investments and their success/further investment decisions at the post-investment stage. In FDI studies, embeddedness of firms involves interactions among different stakeholders such as consumers, local suppliers and policy makers for the organisation's business life (Criscuolo and Salter, 2006) and these interactions can provide "the relationships knowledge, opportunity recognition ability, know-how, market access channels or access to resources" in a certain territory (Harris and Wheeler, 2014, p.7). Therefore, being embedded in a certain territory alongside these "deep and extensive"

relationships of firms through embeddedness will help firms access fruitful investment opportunities through networks whilst these will help their initial investment become successful and expanded (*ibid*). In this sense, this study assumes that the factors affecting EM firms' embeddedness can be a proxy of the influencing factors of firms' success in their initial investment, which in turn will positively influence their re-investment or expansionary investment. Moreover, as the embeddedness process is often very costly, its level affects MNEs' commitment to repeated or long-term investment (MacKinnon and Phelps, 2001). In this sense, Criscuolo and Salter (2006) also suggest 'repeat investment' as one of the indicators in measuring MNEs' embeddedness in the host country, implying the close relationship between 'repeat investment' and 'embeddedness'.

If embeddedness is important in further investment decisions, MNEs' 'liability of foreignness' issue also has significance in the post-investment stage of EM OFDI by influencing the firms' 'building legitimacy' and embeddedness in the host. To understand the reason behind the 'liability of foreignness' which firms face in the host when they carry out FDI, relevant studies view the difference between firms' home and host countries as key. Beginning with 'geographic distance', traditional FDI studies (e.g., Uppsala model's "psychic distance" and Hofstede (1980)'s 'cultural distance') see 'the difference between home and host' as 'distance'. Later, scholars considered that 'institutional theory' covers a wider range of socio-economic aspects by which countries differ than other previous 'distance' concepts (e.g., McSweeney, 2002; Berry *et al.*, 2010; Sarala and Vaara, 2010). Therefore, the concept of 'institutional distance' or 'institutional duality' as Morgan (2001) describes, is useful to fully understand the 'difference' or 'distance' between home and host countries and the 'liability of foreignness' issue MNEs face in the host.

Here, 'New Organisational Institutionalism (NOI)' is selected as the specific institutionalism to be applied to this part of the study considering the analysis level (firm and regional level)

and the fundamental assumption of this study that ‘resource-seeking’ motivation is the major determinant/influencing factor of EM OFDI to DM, and subsequently this will have further influence on EM firms’ re- or expansionary investment in the host. Although institutional theory in general is helpful in understanding “the social context within which resource selection decisions are embedded”, NOI is particularly useful in helping to understand the influence of the institutional context (here, ‘institutional duality’ faced by MNEs) on firms’ “resource selection and sustainable competitive advantage” and their strategic reaction towards the institutional context (Oliver, 1997, p.697-698). The institutional contexts in business include various “rules, norms, and beliefs surrounding economic activity that define or enforce socially acceptable economic behaviour...of resource decisions” (*ibid*). Therefore, the institutional duality faced by MNEs also comes from various levels, such as “decision-maker’s norms and values” at the individual level, “organisational culture and politics” at the organisational level and “public and regulatory pressures” or “industry-wide norms” at the societal or inter-firm level (*ibid*).

The distance caused by institutional duality, both within an MNE amongst local and expatriate employees and between an MNE and the host region, is often negatively linked to embeddedness as the liability of foreignness caused by this ‘distance’ hinders establishing and maintaining MNEs’ legitimacy in the host country (Kostova and Zaheer, 1999). Shimizu *et al.* (2004) also emphasised the significant negative influence of “high cultural distance both at the national and the organizational level between the acquirer and the target” on the investor firms’ performance in terms of “the low wealth effects for acquiring firm shareholders and low returns to acquiring firms” (cited in Zheng *et al.*, 2014, p.10). EM MNEs are also not free from this issue, but rather this issue can be more critical in EM OFDI in the DM case considering a great institutional distance between them (Peng *et al.*, 2008; Gammeltoft *et al.*, 2012). If so, the mediating factors of the liability of foreignness will have

a positive impact on EM firms' embeddedness, and once they are successfully embedded in the host, their "sufficient level of fit in the host country" will aid EM firms' successful selection and leverage of strategic resource and sustainable advantage, which in turn will affect EM firms' subsequent investment decisions in the West Midlands (Oliver, 1997; Gammeltoft *et al.*, 2012, p.177).

Based on the discussions so far, the propositions for this part of the study will focus on the factors which can help the embeddedness of EM firms in the West Midlands by mediating the liability of foreignness issue and by reducing institutional distance within the firm as well as between it, and the host region, assuming that these factors will support the successful achievement of the major motivations of EM OFDI entering the UK. These factors can range from simply modelling other successful references to developing various strategies or network relationships (Gammeltoft *et al.*, 2012). More specifically, propositions for this part of the study will be developed to investigate the factors which will help 1) to acquire and transfer 'strategic-assets' for EM OFDI, 2) successful market strategy for market seeking EM OFDI and 3) successful overcoming institutional distance challenges for institution seeking EM OFDI. In order to help to see the process more clearly, here Figure 6 from the 'Theoretical Framework' chapter is reviewed with the more specific proposition development process incorporated (Figure 6*).

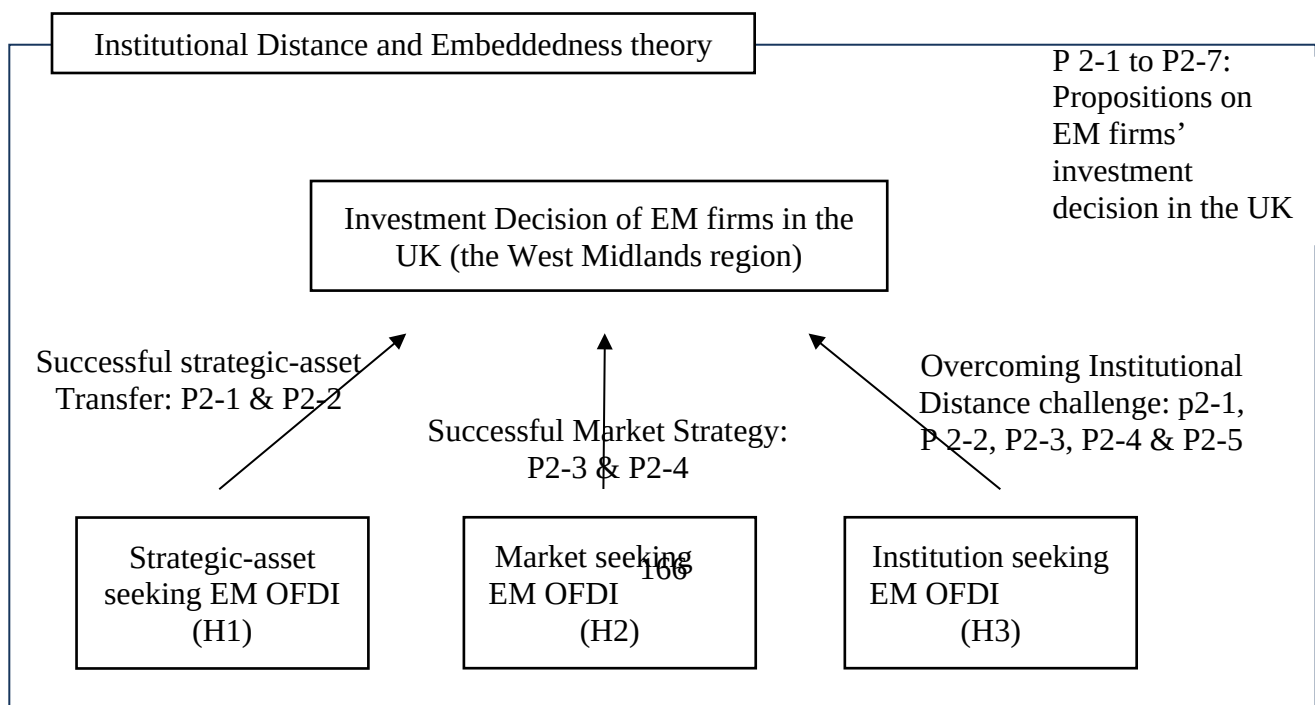


Figure 6*. Theoretical Framework for Part 2 (adjusted from Figure 6 in section 3.4.3) The first proposition is regarding successful acquisition and transfer of necessary resources. As this study assumes that EM firms' main motivations for entry into the DM hosts are often to access necessary resources, which are lacking in their own firms and home countries, effective transfers of these resources will be an important factor in the success of their investment and in turn their re-investment or expansionary investment decision. IB studies assume a positive role of embeddedness in resource transfer of MNEs whilst institutional distance is often considered as a hindrance (Kostova, 1999; Criscuolo and Salter, 2006; Sarala and Vaara, 2010). Child and Rodrigues (2005) addressed these issues in their case study on Chinese OFDI saying that "even if the lack of tangible assets such as technology and branded products can be met through their...(FDI)..., a liability of foreignness may still jeopardize the effectiveness of how they are put to use" (p.385). Elia *et al.* (2014) particularly emphasised "the role of cultural distance" in the case where the main operation of MNEs' sub-units in the host region is to "build up new competencies that they did not inherit or receive from their parent company" (p.5). However, this liability of foreignness and related difficulties and risks tend to decrease as the period of the subsidiaries' operation increases (Delios and Beamish, 2001 cited in Nguyen, 2016). As time goes by, the subsidiaries in a foreign country accumulate experience and knowledge of cultures/institutions of the host and this helps them to develop "experience-based capabilities, refined routines and the ability to adapt" (Henderson, 1999; Baum and Shipilov, 2006 cited in Nguyen, 2016, p.47), which is likely to bring better performance and in turn, encourage further investment in the relevant host (*ibid*). Some studies, such as Mudambi (1998) and Nguyen (2016), have actually found that there is a positive relationship between the duration of a subsidiary's operation in a host and the company's re-investment in the host. Therefore, the first proposition is as following:

Proposition 2-1: Duration of EM firm's operation in the West Midlands will influence their re- or expansionary investment decision.

Here, the institutional/cultural distance issue arises not only from between MNEs and the host but also from the intra-firm level such as between the subsidiary and the parent company or between local (host) employees and expatriates. In order to encourage an effective resource transfer, the convergence thesis suggests cultural convergence, “the process whereby the value systems of countries become similar”, and cultural cross-vergence, “the development of new and unique belief and value systems” for firms’ strategy to reduce institutional/cultural distance (Shenkar, 2001; Sarala and Vaara, 2010, p.6, p.7). For example, Chinese appliance makers Haier and Lenovo successfully overcame the institutional distance in their investment in the US through the former reformulating the business practice (cross-vergence) and the latter focusing on improvement of communication (convergence) (see the details in He and Lyles, 2008). Another strategy suggested by research which can mediate the negative effect of the institutional/cultural distance in M&A case is ‘partnering approach’, which is “keeping an acquisition structurally separate and maintaining its own identity and organization”, *i.e.*, “the acquirer grants the target firm autonomy and allows it to operate independently” (Kale, *et al.*, 2009, p.109 cited in Zheng *et al.*, 2014, p.11). A well-known example can be Tata motor’s post-acquisition strategy after acquiring Jaguar and Land Rover in the West Midlands (*ibid*). Similarly, firms can reduce the ‘liability of foreignness’ problem by hiring local employees who speak local languages and know the local customer culture well (Holtbrugge and Kreppel, 2012). Although they may differ in details, EM firms’ own post-investment operational strategies for reducing institutional/cultural distance will help their embeddedness in the West Midlands and this will in turn influence their re- or expansionary investment. Therefore, the second proposition is as following:

Proposition 2-2: EM MNEs' strategies of overcoming institutional/cultural distance will influence their re- or expansionary investment decision.

In addition to the above, some repeated propositions regarding the regional factors influencing EM firms' entry decision to the West Midlands were included, as these factors also help firms' embeddedness and therefore influence their success and investment decisions at the post-investment stage. Firstly, this study assumed that the presence of a network of established EM firms from the same or a similar cultural background to the investing firms in the West Midlands will be an important influencing factor for their entry decision to this region. It can be assumed that the network between this so-called reference group and a relevant investor firm will also provide a useful strategic model (e.g., their successful strategy) to deal with 'liability of foreignness', which is critical for embeddedness, and know-how or other business opportunities in the host market for the EM firms' successful market seeking (Harris and Wheeler, 2014). DiMaggio and Powell (1983) suggested isomorphism, particularly mimetic, *i.e.*, 'modelling' other successful organisations, the 'reference group', as firms' possible strategic reaction in a highly uncertain and complex environment. Therefore, here is the third proposition:

Proposition 2-3: The presence of the reference group in the West Midlands will influence EM MNEs' re- or expansionary investment decision.

The next proposition is regarding 'ethnic group'. As discussed and assumed in the proposition on its influence on EM firms' entry decision, the "diaspora business communities" can function as a 'buffer' for reducing the costs derived from 'liability of

foreignness', which is critical for the operational stage also. In addition, these ethnic group communities can help a relevant firm's embeddedness and successful market/institution seeking by being a good source of local information, or by mitigating perceptions of risk (Erdener and Shapiro, 2005 cited in Alon, 2010, p.12). Therefore, the fourth proposition is as following:

Proposition 2-4: The existence of a substantial EM firms' home country ethnic group community in the West Midlands will influence their re- or expansionary investment decision.

Lastly, the host regional government support such as the favourable policy or incentives, which were assumed to be an influencing factor of EM firms' entry decision to the West Midlands, will also influence these firms' operations in the region. At the operation stage, the host regional government influence can include 'a cooperative relationship', (e.g., well-established regional partnerships such as 'Local Enterprise Partnership' in the UK). This will help EM MNEs build networks and gain legitimacy for embeddedness, which in turn work constructively for the success of their initial investment and positive perspective of future investment in the host (Luo *et al.*, 2010). Therefore the last proposition is:

Proposition 2-5: The relationship between EM MNEs and the West Midlands local government will influence their re- or expansionary investment decision.

6.3. Data collection and case selection

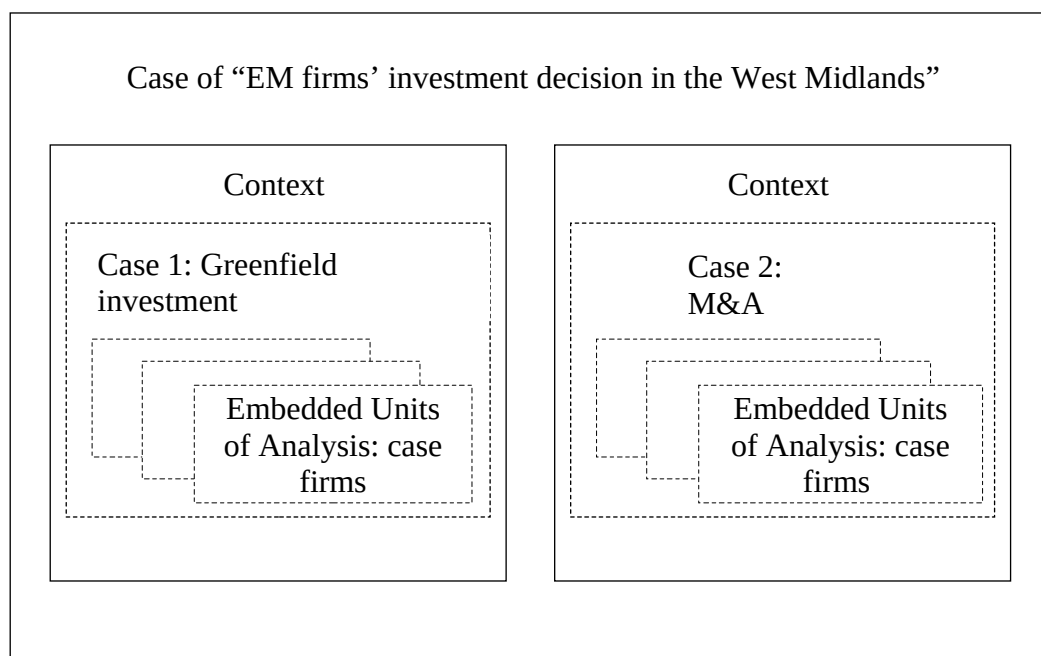
6.3.1. Case analysis design

Before discussing the data collection and case selection process this section will briefly summarise the actual case analysis design for this part of study. The first step of the case analysis design is to ‘define a case’ (Yin, 2012). Although the case analysis methodology allows re-defining of ‘case’ throughout the data collection process, the principle should be to stick with a ‘tentative’ definition of ‘case’ which is developed based on literature review and research question (*ibid*). A ‘case’ is ‘a bounded entity’ which comprises the main unit of the whole case analysis and can thus be an individual person, organisation or a wider scope of community; at the same time, it can be ‘event’ or phenomenon (Gillham, 2000a; Yin, 2012; see 4.4). However, caution needs be paid to distinct ‘case’ and its contextual conditions in both spatial and temporal dimensions, although the boundary can be blurred in some cases (Yin, 2012).

Once ‘case’ is defined, the next step will be to decide whether to choose single or multiple cases for the analysis. Although single-case analysis has advantages in their richness of phenomenon or subject, at the same time, multiple case analysis can achieve more robust results in terms of the ‘representativeness’ issue to which case analysis is limited in general by testing propositions over more than one case enabling comparisons to determine whether a finding is ascribed to one specific case or replicated in several cases (Herriott and Firestone, 1983 cited in Yin, 2003; Gillham, 2000b; Siggelkow, 2007 cited in Eisenhardt and Graebner, 2007, p.27; Eisenhardt, 1991 cited in Holtbrugge and Kreppel, 2012). However, in both single- and multiple-case analyses, there can be several ‘embedded units of analysis’ in each case (Yin, 2003; 2012). Figure1.1 in Yin (2012, p.8) describes basic types of case analysis design depending on single- vs. multiple-case and single- vs. multiple-units of analysis.

In order to explore the subject of this part – ‘EM firms’ investment decisions in the West Midlands’ - and considering the purpose of this part, which is to complete the picture of the subject of this thesis by including M&A data analysis and extending the scope of the study to the post-investment stage, this study has chosen a multiple-case analysis, which consists of ‘EM firms’ Greenfield investment decisions in the West Midlands’ and ‘EM firms M&A investment decisions in the West Midlands’. In particular, the direction of the multiple-case analysis starting from prior knowledge of the expected research results lies in line with the direction of this study (Yin, 2003). At the same time, within each case, there will be so-called ‘embedded units of analysis’, which will be individual firms in this study’s case (Yin, 2003; 2012). With reference to Yin (2003; 2012), this study’s case analysis design can be demonstrated as in Figure 7.

Figure 7. Case analysis structure



Source:

Yin (2003) adopted by Author

6.3.2. Data collection process

Specific data collection methods for the case analysis include archival data such as documentation or administrative records, interviews, survey data, ethnographies and participant observation (Hakim, 1987; Yin, 2003; Eisenhardt and Graebner, 2007). This study has chosen interviews as the major data collection method together with supplementary data from documentation or archives of relevant firms. The target interviewees were decision makers of EM firms involved in FDI in the West Midlands. The data collection process started with obtaining lists of IFDI projects into the West Midlands from 2007-08 to 2009-10. These lists were sourced from an internal source of the West Midlands Observatory and they contained names of companies, the source country, the sub-region of the West Midlands in which they were operating, the type of their investment projects, how many jobs their investment had created and their operation type in the region. The companies which did not want to be contacted were discarded. In this way, these lists not only provided basic information regarding the relevant companies but also gave an idea of whom to contact.

From the lists provided by the West Midlands Observatory, only those from EM countries were chosen. Here, the categories of the EM countries closely followed the definition of EM countries discussed in Chapter 2 and most of them overlapped with those of the panel data, although two firms from Mexico were included in the contact list for interviews. Investments from EM SOEs were excluded as their investment motivation is often political rather than reflecting firms' own investment interests (Lunding, 2006; Dunning *et al.*, 2008; Rogen and Hanemann, 2009; Alon, 2010; Holtbrugge and Kreppel, 2012); similarly, other strategic alliances such as joint ventures were discounted as in these kinds of investment firms do not have effective control of their further investment decisions (Luo and Tung, 2007; Ernst and Young, 2011) (See also 5.3.1). A further feature of EM investment is that it focused on the manufacturing industry (Alon, 2010) and considering the historical heritage of the

manufacturing industry in the West Midlands, the case analysis also focused on EM FDI projects in this sector only. As a result, those in the service industry were excluded. This does not raise any significant issues as the great majority of the FDI projects from EM firms in the West Midlands are in manufacturing (only on average one or two out of 12-13 EM inward investors were categorised in the service sector for each year). At this stage, 11 firms were chosen from the lists. In addition, one more EM firm, of which expansionary investment in the West Midlands was announced through both local and national business news, was added to the interview contact list (Firm 1L). This firm was actually found in another updated potential interviewee list from the same source later. The first letters requesting an interview were sent to these 12 EM firms on 10th June 2014. Table 16 summarises the details. Addresses were available from the original list but the author cross-checked them from companies' websites where possible or from other public websites providing basic information regarding relevant firms. From the first contact, the author received only one response from Firm 1G, which declined an interview (Table 16).

Table 16. First contact to the EM firms in the West Midlands on the lists from West Midlands Regional Observatory in 2007-8, 2008-9 and 2009-10

Company	Investment type	Investment year	First letter (10 June 2014)	Reminder letter (22 July 2014)	Email contact (25 Nov 2014)	Interview
Firm 1A (Russia)	Acquisition	2007	no response	no response	N/A	26 Sep 2014 via phone; 21 Jan 2015 via phone; 16 May 2016 via phone
Firm 1B (India)	Expansion	2007	no response	no response	LinkedIn Inmail	
Firm 1C (China)	New	2008	no response	no response	LinkedIn Inmail	
Firm 1D	New	2009	no	no	company	

(China)			response	response	website contact – the email address does not exist any more	
Firm 1E (China)	Expansion	2010	no response	no response	LinkedIn Inmail	
Firm 1F (Mexico)	Expansion	2010	no response	no response	company website contact	
Firm 1G (India)	Acquisition	2010	Response saying ‘no’ via email	no response	N/A	N/A
Firm 1H (Turkey)	Expansion	2011	no response	no response	company email	
Firm 1I (India)	Acquisition and several expansionary investments	2008	no response	no response	N/A (Difficult to find appropriate email contact)	N/A
Firm 1J (India)	Expansion	2007	no response	no response	N/A	N/A
Firm 1K (Mexico)	Acquisition	2009	no response	no response	N/A (Ownership has been changed into Joint Venture during the investment)	N/A
Firm 1L (China)	Expansionary	2011	no response	no response	LinkedIn Inmail	

Source: internal source of West Midlands Regional Observatory

Whilst waiting for responses from the firms in the first contact list, another list of foreign investment projects in the Black Country between 2003 and 2014 was obtained from an internal source at the Black Country Consortium Ltd. This list also provided similar information to those in the first lists from the West Midlands Regional Observatory. Using the same process, two additional EM firms were chosen. Table 17 summarises the detail for

these firms. Given the very low response rate from the first contact list, reminder letters were sent to those firms in the first list when the initial letters requesting an interview to the EM firms on the second list were sent in July 2014 (both the original letter and reminder letter can be found in Appendix 3). From these letters, the author received an email which agreed to a phone interview from Firm 1A and conducted a phone interview in Sep 2014 with the agreement that there would be follow-up phone interviews. The second phone interview with Firm 1A was carried out in January 2015 and the third phone interview in May 2016. In October 2014, the reminder letters for the firms in the second contact list were sent as there was no response from them (Table 17).

Table 17. Second contact to the EM firms in the West Midlands on the lists from 2007-8, 2008-9 and 2009-10

Company	Investment type	Investment year	First letter (22 July 2014)	Reminder letter (24 Oct 2014)	Email contact (25 Nov 2014)	Interview
Firm 2A (China)	New	2011	no response	no response	LinkedIn Inmail – response for yes	
Firm 2B (Russia)	New	2012	no response	no response	company email	

Source: Internal source of Black Country Consortium Ltd

As the responses from both contact lists to the formal letters were very few, the author diversified the contact route by using emails and personal networks. In November 2014, emails were sent to some of the firms in both of the contact lists where it was possible to find either relevant company directors' 'LinkedIn' contacts or company email addresses. Amongst those emails, one respondent, Firm 2A, agreed to an interview via LinkedIn. However, this did not successfully lead to a real interview due to no follow-up responses from the firm regarding interview schedule and detail. Meanwhile, one contact of a Chinese firm (Firm 3A) in Birmingham was received through the author's personal network as

advised by Welch *et al.* (2002) and two interviews with Firm 3A were carried out in December 2014 and in May 2016. In addition, the author was able to obtain an updated list of IFDI projects in the West Midlands from 2011-2014 from the same internal source of the West Midlands Observatory and contacted three additional firms (Firm 3B, 3C and 3D) which were selected through the same process as the first and second contact via company email or web contact. There was also no response from this last set of firms. Table 18 summarises the details of the firms from this third contact including the one through the author's personal network.

Table 18. Third contact to the EM firms in the West Midlands via personal contract and from the lists from 2010-11, 2012-13 and 2013-14

Company	Investment type	Investment date	First letter	Reminder letter	Email contact	Interview
Firm 3A (China)	New	28 May 2009			29 Nov 2015 via personal email	4 Dec 2014; 19 May 2016
Firm 3B (Mexico)	Expansion	1) 25 Jun 2012; 2) 4 Dec 2013			5 Jan 2015 via company email	
Firm 3C (China)	Acquisition	25 Jul 2013			5 Jan 2015 via company email	
Firm 3D (India)	Expansion	17 Dec 2013				

Source: internal source of West Midlands Regional Observatory

As can be seen in the data collection process described so far, the number of responses *per se* towards the interview request was very low and the agreement for interview even lower. This is a widely-agreed difficulty of an elite interview (Welch *et al.*, 2002). Considering the research question for the case analysis in this part, the target interviewees were decision-makers of the EM firms at director or manager level of position. These target interviewees are so-called 'elite' interviewees and compared to non-elites, access to them is particularly

difficult as they, by their nature, “establish barriers that set their members apart from the rest of society” (Hertz and Imber, 1993, p. 3, cited in Welch *et al.*, 2002, p.614). This difficulty is well described in one researcher’s report: “In one case, it took me nearly two years of phone calls, screening meetings with executive assistants, and networking to interview two executives in a major manufacturing company” (Thomas, 1993, p. 83, cited in *ibid*).

For this reason, whilst going through the process of contacting the EM firms and waiting for their responses, the author simultaneously collected secondary data regarding the relevant firms through the web pages of the companies and their parent companies, local and national news in the UK, other media sources such as the firms’ home country news and further available documents on the internet such as annual reports or government reports. These secondary data played several important roles. Firstly, brief information and data on all the firms on the contact list from their websites and media sources was collected to provide ‘sketches’, based on which the firms for the case analysis were selected. The ‘selection process’ followed the reference of methodology studies on the case analysis. Here qualitative sampling is ‘theoretical sampling’ or ‘purposive sampling’, where the sampling is conducted for theoretical reasons such as “revelation of an unusual phenomenon, replication of findings from other cases, contrary replication, elimination of alternative explanations, and elaboration of the emergent theory” (Eisenhardt and Graebner, 2007, p.27). In ‘theoretical sampling’ cases or units of analysis for case analysis are selected because they are “particularly suitable for illuminating and extending relationships and logic among constructs” or sometimes because they are “polar types” (*ibid*) or “extreme examples and opportunities for unusual research access” (Yin, 2003 cited in Holtbrugge and Kreppel, 2012, p.7) based on the “principle of maximum contrast” (Lamnek, 2005, p. 191 cited in Holtbrugge and Kreppel, 2012, p.7). The analysis unit firms for this case analysis were also selected following this

‘theoretical sampling’ process based on the general secondary data for individual firms on the target interviewee lists. Details of these chosen firms will be discussed later.

Secondly, these secondary data are useful for triangulation of the data obtained through interviews. “[M]ultiple data collection methods provide stronger substantiation of constructs and hypotheses” (Eisenhardt, 1989, p.538 cited in Zheng *et al.*, 2014) and therefore, studies using ‘interview’ as a major data collection still supplement and cross-check their ‘primary data’ with ‘secondary data’ (e.g., Holtbrugge and Kreppel, 2012; Zheng *et al.*, 2014).

Lastly, the secondary data collection was further developed for the firms which were selected for the case analysis but did not respond to interview requests or refused to be interviewed. For these firms, a more detailed secondary data collection was carried out by looking not only at the firms’ own web pages but also parent companies’ and other relevant documents such as companies annual reports (both the firms’ and parent companies’), previous case studies or government/industry reports where available as their major data. The following figure (Figure 8) demonstrates stages of the data collection.

Figure 8. Stages of data collection

Stage 1	Recognising firms to contact	Obtaining lists of firms via local government organisation and network
Stage 2	Contacting firms for request of interviews	Selecting and contacting firms for the interviews based on the information regarding the industry, type of the firm and investment type
Stage 3	Pilot test of interview questionnaire	Revision and refinement of the interview questionnaire for usage through pilot test
Stage 4	Data collection	Collecting data through interviews and from secondary sources. In this stage the secondary data were collected for all the firms contacted by the author for the interview and were focused on general information regarding the investment as an event.

Stage 5	Selection of the units of analysis for each case	Based on the general data collected at stage 4, appropriate firms as individual units of analysis for each case of this study were chosen.
Stage 6	Further data collection	For the triangulation purpose of the interview data and for the firms which the author was not able to have interview with, more in-depth secondary data were collected

Source: Author's summary

Each of the following sections will discuss details of interviews and justification of secondary data analysis for the case where firms were not interviewed respectively.

6.3.3. Interview (overview of target interviewees and processes)

Fontana and Frey (1994) defined an interview as “an extended face-to-face verbal interchange between a researcher and an informant with the purpose of understanding the latter’s experiences and perspectives” (Welch *et al.*, 2002, p.612). Therefore, the strength of an interview lies in its ‘richness and vividness’, and in this way, it enables researchers to gather empirical data regarding “complex interrelationships between the research objectives and their contexts” (Stake, 1995 cited in Zheng *et al.*, 2014) in a highly efficient way (Gillham, 2000b, p.11; Eisenhardt and Graebner, 2007). For this reason, interviews are a well-established method for data collection in various qualitative researches including case analysis and therefore, are widely used in IB studies as well (Gillham, 2000b; Welch *et al.*, 2002).

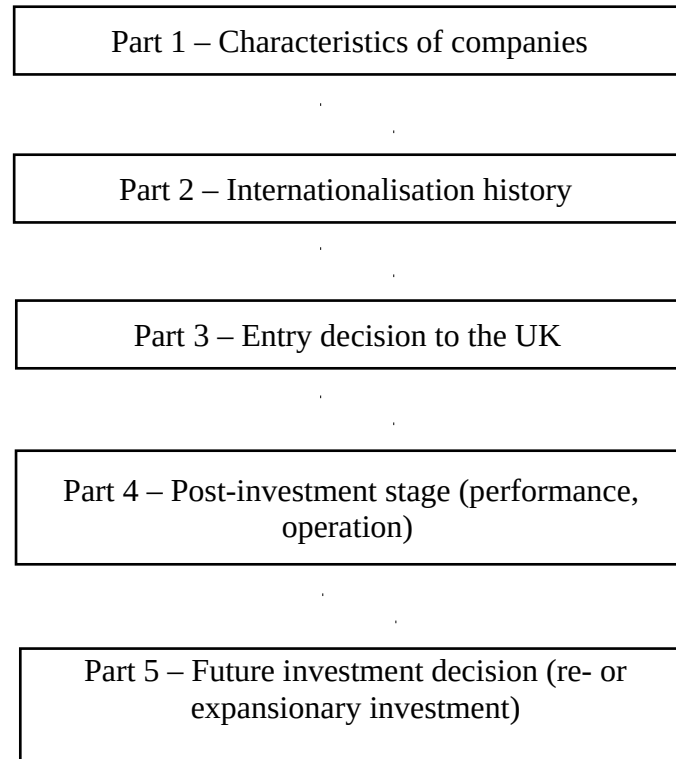
In terms of any interview format, focused (or semi-structured) interviews were applied. As a focused interview follows a structured set of questions whilst the interview manner can still remain conversational and open-ended, it has the advantage of collecting necessary data in a

relatively short period of time whilst still allowing the interviewees relative freedom to talk and discuss their own opinions (Yin, 2003; Gao and Liu, 2010 cited in Zheng *et al.*, 2014). In practice, the author constructed a thoroughly-designed questionnaire based on propositions and the theoretical framework of this study as a protocol for conducting the interviews. However, the set of questions was also sometimes adjusted for different cases according to the interviewees' responses. Gillham (2000b) also emphasised the importance of 'probing' and 'prompting' during interview processes in order to gain appropriate data in depth.

As noted earlier, two firms agreed for interview and the interviews were carried out immediately following their agreement. The first firm, 1A, agreed for the initial interview through the operations director's response to the author's reminder letter. This was a phone interview with the follow-up interviews also carried out via phone after the firm had made a significant investment decision. The second firm, 3A, was contacted through the author's personal network and the interviews were carried out at the firm with the firm's finance director.

The interview questions were designed in an open-ended form to allow prompts which help richness of qualitative data. However, at the same time the key idea of questions aim at addressing the propositions developed earlier either directly or indirectly. The interview was structured in a way that grouped questions regarding different stages of a firm's investment in the UK. Part 1 covered the basic characteristics of the company and Part 2 dealt with internationalisation history including the company's trade and previous FDI experiences. Following questions were grouped into separate parts covering the factors which influenced 'entry' investment decision (Part 3) and post-investment stage (Part 4). The last part (Part 5) deals with the interviewee firm's future investment plan. Figure 9 demonstrates the flow and structure of the questions and summarises what each part's questions of concern. The actual interview questions can be found in Appendix 7.

Figure 9. Flow chart of interview questions



Source: Author's figure

Another important element of interview preparation is implementation of a pilot test (Turner, 2010, p. 757). A pilot test is intended to “ensure that methods or ideas would work in practice” (Kim, 2011, p.2). Thus, a pilot test assists researchers not only with any necessary revision of any “flaws, limitations or other weakness” in the interview design (Kvale, 2007) but also with refinement of research questions (Turner, 2010, p.757). In theory, a pilot test should be conducted with participants from a similar background to the target interviewees of the research (*ibid*). However, in practice, the data availability can be an issue in finding

participants for a pilot test as much as it is in actual research. This study has demonstrated the difficulties in contacting and gaining responses from target interviewees for this type of study. Therefore, the pilot testing of this study was focused on ‘refinement’ of the questionnaire, the major purpose of the pilot test (Turner, 2010; Kim, 2011), with a supervisory team consisting of experienced researchers with ‘elite interviews’ regarding the relevant theme (*i.e.*, firms’ investment decisions). The interview protocol and questionnaire went through several revisions and refinements with discussions and input from the supervisory team. Furthermore, as the interviewee from Firm 1A agreed to a follow-up interview, the first phone interview worked as a form of ‘pilot testing’ through which not only the questions were checked as to whether they addressed the research question appropriately to get necessary data but also the flow and structure of interview were adjusted for a more smooth process for other interviews, *i.e.*, the following-up phone interviews with Firm 1A and the face-to-face interviews with Firm 3A.

Prior to the interviews, both interviewees were informed about the purpose of the research, what the interview questions would be about, how the interview material would be recorded (*e.g.*, transcribed) and analysed (*e.g.*, coded) and what its use would be both via interview request letters/emails and at the beginning of the interview (Gillham, 2000b). In addition, the author assured the interviewees of anonymity to allow their openness and both interviewees agreed to digital recording. The interviews were subsequently transcribed for analysis and the author provided interview transcriptions for them afterwards to assure confidentiality and anonymity. They were also able to amend any of the interview contents if they considered it had not been recorded correctly.

Lastly, regarding the interview process, there is one more issue to cover specific for this study’s interview, *i.e.*, ‘elite interview’. Although a significant amount of work has been done on ‘interview’ in general as a qualitative data collection method, there have not been

many explicit studies on 'elite interview' (Welch, *et al.*, 2002; Smith, 2006). However, the elite interviewees have distinguished characteristics from non-elite interviewees in terms of accessibility, expertise and power structure between interviewer and interviewee (Gillham, 2000b; Welch, *et al.*, 2002; Smith, 2006). Therefore, interviewers need to be aware of different concerns regarding ethical issues or the validity and reliability of data collected in 'elite interviews'. This issue has significance particularly in business studies in general, as the interviewees in these studies are often 'elites' such as senior managers or CEOs. Welch, *et al.* (2002), whose study specifically focused on 'elite interviews' in IB research, tried to define 'elite' as a "comprehensive" and "workable" term suitable for IB area rather than using a general definition of 'elite' (p.613). Following them, an "elite interviewee in IB" is an "informant who occupies a senior or middle management position; has functional responsibility in an area which enjoys high status in accordance with corporate values; has considerable industry experience and frequently also long tenure with the company; possesses a broad network of personal relationships and has considerable international exposure" (*ibid*). Based on their definition, the interviewees of this study are also 'elites'. Both of their titles were at 'director' level with one being an operations director and the other being a finance director, and both have responsibility and authority to communicate with the parent company regarding their firms' important decisions, including investment decisions. Although one did not have a long tenure with the company after the investment was made, he still had significant industry experience and expertise. Therefore, the author also needs to pay attention to the specific concerns regarding 'elite interview'.

The most significant distinctiveness of an 'elite interview' is the great difficulty in gaining access to 'elite interviewees'. Therefore, one common way encouraged and used in business studies to access an elite interviewee is through a personal network, which this study also employed. In such a case the interviewer is required to be aware of 'bias' caused from too

close or direct personal network (Macdonald and Hellgren, 1998 cited in Welch *et al.*, 2002). However, the author did not have this ‘bias’ issue to contend with as the interviewee was introduced through a professional and credible personal network of the author who does not have direct interest in her study (a research student director of her business school).

Another possible issue related to ‘elite interview’ is in regard to ‘power balance’. Due to the difficulty in accessibility, once interview opportunities with ‘elite interviewees’ are obtained, this situation together with the interviewees’ general ‘elite position’ often puts them in a more favourable position in the power balance (Welch, *et al.*, 2002; Smith, 2006). Consequently, there is a risk of interviewees being manipulative in data provision or interview direction, and of their ability to direct feedback or dissemination of data and analysis results in their favour rather than in a way appropriate for the research (*ibid*). However, regarding the interviewee’s openness in this study, although they were cautious to speak openly about some detailed strategies or plans regarding their future business or investment, which might be sensitive from a competition aspect, neither of them hesitated or refused to provide any answer to the interview questions directly related to the research questions, (e.g., whether or why they have any re- or expansionary investment plan). In addition, neither of them tried to control interview transcription or its use as data other than requests for anonymity. Moreover, to minimise ‘elite interviewees’ manipulation in data provision issue, studies recommend ‘triangulation’ of the data with other data sources (Welch *et al.*, 2002). Although triangulation is a common practice in studies using interview as a data collection method, this becomes even more significant in elite interview as the ‘elite interviewees’ are often “professional communicators” (Fitz and Halpin, 1995, p.68) who are used to developing “elaborate and persuasive arguments” (Ostrander, 1993, p.19), and thus, researchers may risk “overestimating the importance of what elites have to say” (*ibid*). In this study also, secondary data plays several important roles and one of them is precisely this ‘triangulation’.

Developing this discussion regarding secondary data, the following sub-section will discuss issues related to and justification for using secondary data in detail.

6.3.4. Discussions and justification of secondary data

Due to the difficulties in getting responses from target interviewees, this study turned to secondary data for some of the firms. Although secondary analysis in qualitative research is becoming more common, it nonetheless certainly has shortcomings in that the data does not always reflect exactly what a researcher intended to explore from the research question and can be subject to their own biases from the perspectives of who collected and created the data (Irwin and Winterton, 2011; Holtgrugge and Kreppel, 2012; Yin, 2012). Considering one of the key advantages of qualitative analysis, *i.e.*, ‘rich contextual dynamics of data production’, researchers using archival or re-using other qualitative research data are certainly deprived of the “specific and privileged relationship to the data” and “immediate context of the research” (Irwin and Winterton, 2011, p.6). However, studies which have tried to define the ‘second data analysis’ mostly agree that the secondary analysis also needs to be a process of “addressing a...(distinct)...research question...(and)...generating novel interpretations and conclusions” as primary data analysis does, although their own specific issues as analysis methodologies may differ (Glass, 1976; Hewson 2006, p.274 cited in Smith, 2008). In this sense, Kiecolt and Nathan (1985, p.10) emphasised that the difference between primary and secondary analysis only lies in that the former involves both data collection and analysis, whilst the latter requires “the application of creative analytical techniques to data that have been amassed by others” (Smith, 2008). Moore (2006) also similarly described the secondary data analysis as “re-contextualising data” rather than “re-use of pre-existing data” (Irwin and Winterton, 2011, p.8).

Regarding researchers' distance from the data and the context issue, the same puzzles and questions for secondary analysis regarding data often arise in the case of generating primary data also because researchers are not guaranteed to gather all the information needed from the data they primarily collected (*ibid*). Moreover, the importance of researchers being 'there' in the data collection field varies greatly depending on the type of methods such that this issue can be critical in 'ethnographic' research whilst being less of an issue in other methods (*ibid*). Considering these arguments, if the exploration of, and conclusion from, certain existing data is made such that they match as closely as possible the testing of hypotheses or for investigating propositions meeting the purpose of the research, the analysis based on this data is valid and justified as an original piece of work (Bruce, 2008; Irwin and Winterton, 2011). This is because "data, which is collected or generated in the course of research" is distinguished from "evidence as the analysed data which provides the grounds for inference" (Hammersley, 2009 cited in Irwin and Winterton, 2011, p.8; 17). Thus, analysts need to construct data as "evidence in the service of some empirically grounded set of arguments and knowledge claims" regardless whether the 'data' is collected through primary or secondary means (*ibid*). Closely in line with this argument, Mason (2007, p.7) also emphasised that it is "the adequacy of the researchers' reflexivity" and interpretation of the data that matters rather than the data's proximity to the original context in which they were produced (Irwin and Winterton, 2011). In this sense, sometimes 'the best-practice' may be accepting given data and focusing on interpretation of the data.

6.4. Data analysis and results

6.4.1. Overview of the selected EM firms

The EM firms for the case analysis were selected firstly because they were involved in M&A and Greenfield investment and include various examples regarding ‘new’ or ‘expansionary’ investment status. Secondly, the firm selection followed a ‘theoretical sampling’ process where the author purposively decided upon firms whose stories seem to be suitable for exploring the propositions of the case analysis. In this process, when there are ‘extreme’ or ‘contrast’ examples, they were selected based on the “principle of maximum contrast” (Lamnek, 2005, p. 191 cited in Holtbrugge and Kreppel, 2012, p.7). Following this process, the author selected six firms as units of analysis for the case analysis with three firms for each type of IFDI (3 M&A firms and 3 Greenfield firms). Tables 19 and 20 provide brief profiles of the EM firms selected for the case analysis and summarise some key information related to their investments.

Table 19. Overview of the selected EM firms – M&A case

M&A case	Firm 1A (Russia)	Firm 1B (India)	Firm 1G (India)
Brief Investment history in the region	▪ Acquisition in 2007	▪ Acquisition in 2006 ▪ Expansion in 2007	▪ Acquisition in 2010 ▪ MBO by original owner in 2014
Interview	▪ Sep 2014 via phone ▪ Jan 2015 via phone ▪ May 2016 via phone	No response	Response to refuse
SIC code; Industry name	28; Fabricated metal products	28; Fabricated metal products	27; Basic metals
Operation (detailed operation)	Manufacture (Zinc and aluminium die-casting alloys)	Manufacture (Forged automotive products)	Services (smooth clean surface steel)
History of the parent company	Founded in 1935	Founded in 1945	Founded in 1969
History of the UK	Founded in 1947	Founded in 2001	Over 30 years

company acquired			
Parent company's other foreign investment summary	<ul style="list-style-type: none"> ▪ Parent company was once owned by an English company ▪ It is now part of large enterprise group in Russia ▪ Under its direct ownership it owns a subsidiary in Switzerland which mainly manages a mine in Kazakhstan 	<ul style="list-style-type: none"> ▪ Parent company has an enterprise group in Europe which consists of four subsidiaries in Germany and Firm 1B 	<ul style="list-style-type: none"> ▪ Parent company operates other service centres in Indonesia and Canada

Source: Author's summary

Table 20. Overview of the selected EM firms – Greenfield case

Greenfield	Firm 3A (China)	Firm 1L (China)	Firm 2A (China)
Brief Investment history in the region	Greenfield in 2009	<ul style="list-style-type: none"> ▪ Acquisition in a different region (London) in 2007* ▪ Expansion in the West Midlands region through Greenfield 2009 ▪ Further expansion in the region in 2011 	Greenfield in 2011
Interview	<ul style="list-style-type: none"> ▪ Dec 2014 ▪ May 2016 	No response	Response to agree with interview but no response to further process
SIC code; Industry name	Scaffolding	31; Electrical Machinery/Lighting	Alternative renewable energy
Operation (detailed operation)	Distribution	Manufacturing (R&D)	Logistics, distribution and transportation
History of the parent company	N/A	Founded in 1998	Founded in 2004
Parent company's other foreign investment summary	Parent company has subsidiaries in Australia, America and Dubai	N/A	Parent company has its headquarter in Denmark and other subsidiaries in Poland. It has established other offices in Thailand, the Philippines and India

*Note: *Although Firm 1L came into the UK through acquisition by a Chinese company, the first investment made through the acquisition was a ‘pilot’ investment in the UK from the parent company’s perspective. It later expanded their investment in the West Midlands area through Greenfield investment with the parent company’s own brand and its CEO saw this investment was the major investment which has significance to the parent company in its home country (Wong, 2011). Therefore, this firm was selected as an analysis unit of ‘Greenfield’ investment case rather than as an M&A case; Author’s summary*

The first two firms from each type (Firm 1A and 3A) are those which were interviewed. Firm 1A was acquired by a Russian parent company in 2007 and Firm 3A was a Greenfield investment made by a Chinese company in 2009. Both of them were ‘new’ investments in the West Midlands region. The parent companies neither had investment experience in the UK nor Europe prior to investment in the West Midlands. In fact, the investment in Firm 3A was the first foreign investment of its parent company. Firm 1A’s parent company has a foreign subsidiary dealing with mining business in its home country region and Firm 3A’s parent company had also expanded its foreign subsidiaries since its first investment in the UK.

In addition to these interview firms, the author chose two more firms for each type to supplement the data. For the M&A case, Firm 1B and 1G were additionally selected. These were both acquired by Indian companies in 2007 and in 2010 respectively. Neither of their parent companies had previous investment experience in the UK; however, Firm 1B’s parent company has several previous foreign investment experiences and subsidiaries in Europe, which consists of a separate enterprise group. In fact, Firm 1B was acquired as a further development of their European group. Although Firm 1G’s parent company operates service centres in Indonesia and Canada, it does not have any previous investments in either the UK or Europe. In addition, these two firms have shown contrasting moves since their acquisitions, with Firm 1B expanding its investment in the region whilst Firm 1G has carried out a Management Buyout (MBO) to regain independence from its parent company. The

author purposely chose these two firms so as to include ‘polar types’ of examples regarding expansionary investment within the ‘M&A’ case.

For the ‘Greenfield’ type of investment, the author chose Firm 1L and 2A additionally. Although Firm 1L came into the UK through acquisition, its major investment with the parent company’s own brand which started to have significance in both the host region and to the parent company was its Greenfield investment in the West Midlands. Furthermore, this company has carried out subsequent expansionary investments in the region since it came to the region. As with Firm 3A, investment in the UK was the first foreign investment of Firm 1L’s parent company. Firm 2A is also a Chinese firm and came into the West Midlands region through a new Greenfield investment in 2011. Although its parent company does not have any previous investment experience in the UK, it has several ‘acquisition’ experiences in other European countries and its key technology was acquired from a European company with which it merged as part of its first foreign investment. From its company web page information, its success in its home country and within Europe has led to many further foreign investments.

6.4.2. Analysis process

For analysis, both within- and cross-case analyses were conducted. Following Eisenhardt and Graebner (2007), a within- and cross-case analysis is “recognizing patterns of relationships among constructs within and across cases *and* their underlying logical arguments” (p.25). In practice, through a within-case analysis researchers understand the specific aspects of each case, and through a cross-case analysis, researchers explore similarities and differences between the cases (Holtbrugge and Kreppel, 2012 p.7). Here, the scope of within- and cross-

case analyses includes both case level (M&A and Greenfield) and unit of analysis level (individual firms).

The next step in the analysis process is defining a specific analytical tool to look into the 'raw data' and make an interpretation from it. Yin (1994, p.20) recommends five steps in analysis of a case analysis which follows a 'deductive' approach: 1) study questions; 2) study propositions or theoretical framework; 3) identification of the units of analysis (which provides the criteria for data collection); 4) the logical linking of the data to the propositions and 5) interpreting the findings (Berg, 2001, p.230). Once data is collected, the following step is to decide how to link the data to propositions and Yin (1994) points out that studies often lack a clear strategy for achieving this (*ibid*). For this, 'content analysis' was chosen. This analysis method was originally developed as a more quantitative method to study a certain 'message' or 'content' systematically by calculating the frequencies of themes or terms appearing in the content (Berelson, 1952; Silverman, 1993 cited in Berg, 2001, p.241; Neuendorf, 2002). However, several researchers have argued that this method does not have to be used exclusively as a quantitative method, but can be used in a qualitative context as well when focusing on the 'character' of the data such as 'pattern' rather than 'duration and frequency' of the data (Selltitz *et al.*, 1959, p.336; Smith, 1975, p.218 cited in Berg, 2001, p. 241). Studies using content analysis in qualitative research define it in a broad way such as "a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns" (Hsieh and Shannon, 2005, p.1278 cited in Zhang and Wildemuth, 2009, p.308) or "any qualitative data reduction and sense-making effort that takes a volume of qualitative material and attempts to identify core consistencies and meanings" (Patton, 2002, p.453 cited in Zhang and Wildemuth, 2009, p.308). Based on these 'broad' definitions of content analysis, 'qualitative contents' include all sort of recorded textual content (Mayring, 2000; Neuendorf, 2002).

Neuendorf (2002) proposes one of the purposes for which content analysis can be used as ‘summarising’ a data set through “detailed mark up, retrieval and description of textual content” based on the organisation of coded text (p.16). Therefore, this method can help to link the raw data to the propositions in a strategic way.

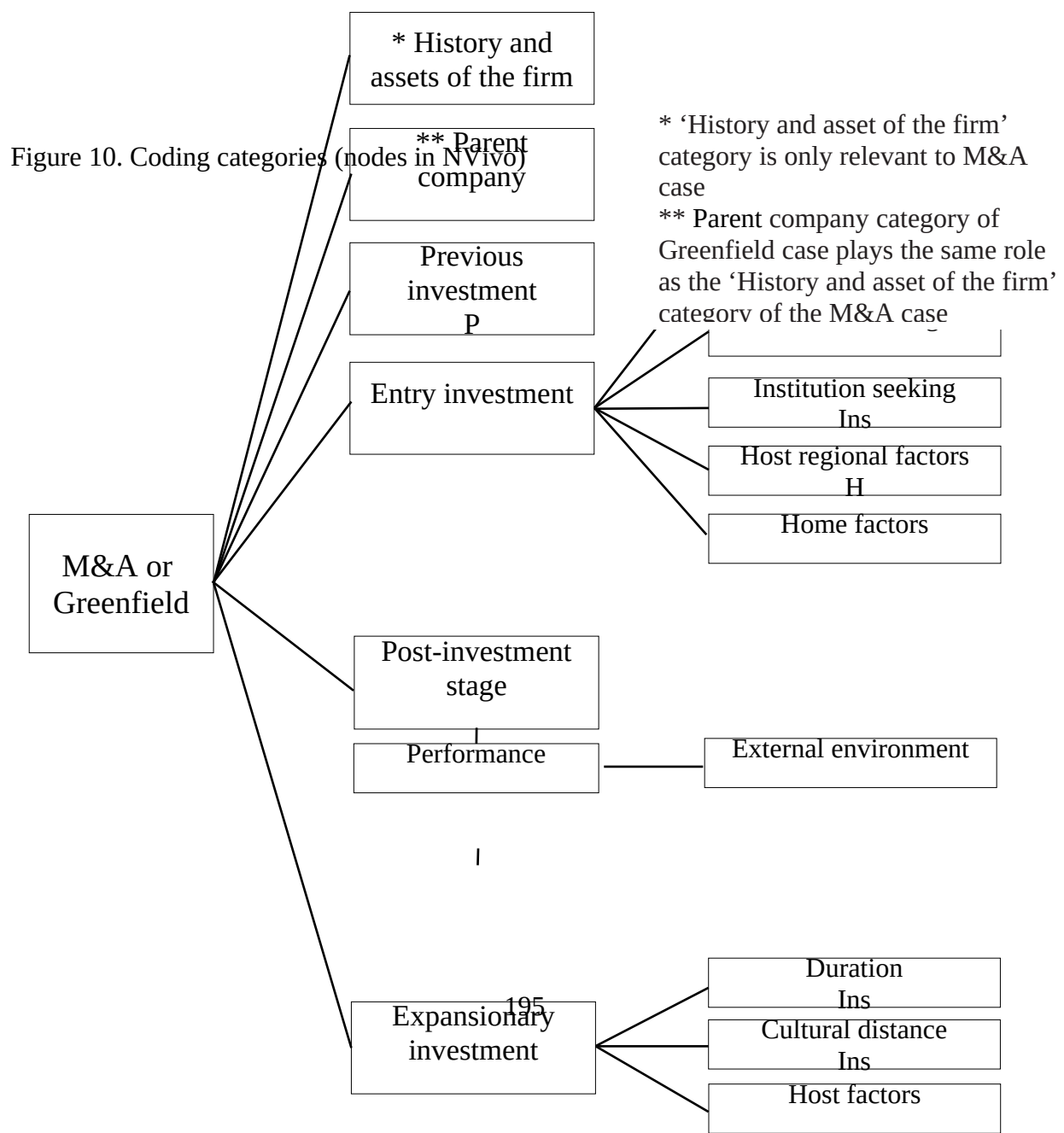
As a research method, content analysis also requires a clear ‘overarching aim’ of the study in terms of whether the study is for ‘theory-building’ or ‘theory validation’, which will in turn determine the direction of analysis as inductive or deductive. Depending on this analysis direction, a decision is required as to whether to pre-determine the ‘categories’ (or ‘codes’) before analysis (deductive) or to leave these categories or codes to emerge from the data (inductive). Due to its epistemology, the analysis direction in qualitative study often follows inductive reasoning and this applies to qualitative content analysis as well (Berg, 2001). However, at the same time, scholars agree that the ‘deductive approach’ does not need to be excluded in qualitative content analysis (Berg, 2001; Zhang and Wildemuth, 2009). Although in conventional qualitative content analysis, coding categories are derived from the raw data, it can also be ‘directed’ by a theory or relevant research findings (Hsieh and Shannon, 2005 cited in Zhang and Wildemuth, 2009). The important thing is that even in the latter case, researchers need to retain the possibility of themes emerging from the data whilst starting initial coding with a pre-determined category based on a theory or previous studies (Berg, 2001). As this study follows a deductive approach where its overarching aim is to investigate whether our data supports the suggested propositions, the coding categories are constructed based on these propositions. In this way, the raw data is logically linked to the propositions as Yin (1994) recommended.

Studies on content analysis suggest several stages to the process, summarised as follows (e.g., Mayring, 2000; Berg, 2001; Zhang and Wildemuth, 2009). The first stage is to prepare the data (e.g., interview transcription; collection of other secondary data). Data was organised by

individual firms and then was roughly grouped according to general theme within these organised data for the same firm; note that this was for the purpose of *data organisation* rather than categorisation. After data preparation, the next important, but often overlooked, stage is to define the unit of coding (Weber, 1990 cited in Zhang and Wildemuth, 2009). Although a conventional content analysis puts “physical linguistic units (e.g., words, sentences)” as a coding unit, qualitative content analysis often uses “individual themes” or “expression of an idea” as a coding unit (*ibid*, p.310). In this sense, a coding unit in a qualitative content analysis can be either a single word or an entire document as long as that ‘chunk’ represents an idea or theme relevant to the coding category (Berg, 2001; Zhang and Wildemuth, 2009). Once the ‘coding unit’ is decided, categories of coding need to be determined. Here, special attention needs to be paid in distinguishing coding units and categories: the former is “basic content elements” which are examined to specify certain content characteristics whilst the latter provide “explicit rules for identifying and coding these characteristics” (Berg, 2001, p.248). In short, coding units are elements which are included into a specific coding category because they reflect the characteristics of said category. Therefore, there will be one coding category representing a certain characteristic, but coding units can be included in more than one coding category if they reflect more than one characteristic at the same time (e.g., data regarding a UK-acquired firm’s well-established history and brand value will be a ‘coding unit’ which could be coded under both the coding categories of ‘History and assets of acquired firm’ and ‘Strategic-asset seeking motivation of EM firms’).

This stage will be determined by whether the analysis direction is deductive or inductive. This study takes the deductive approach by setting ‘theme categories’ for coding based on its propositions and interview questions, although the possibility of new categories emerging inductively throughout the actual coding and analysis process could be expected at the same

time (Mayring, 2000; Berg, 2001; Zhang and Wildemuth, 2009). As a result, some original categories were discarded or merged together and some new categories were included following the analysis of the data. The overall structure of categories is the same for both M&A and Greenfield types but sub-categories were constantly revised depending on the data and thus, they differ slightly. Figure 10 demonstrates the main categories of coding (nodes) in a tree map. NVivo 10 was used to import and code the data. It is now common practice to use computer programmes in qualitative studies as these programmes help researchers organise, manage and code qualitative data more efficiently (Neuendorf, 2002; Zhang and Wildemuth, 2009; Holtbrugge and Kreppel, 2012).



Source: Author's figure

To summarise categories (nodes) at the most general level, 'History and assets of the firm' is only relevant to the M&A type to overview the brief of an individual firm acquired by EM parent company. Therefore, some contents under this node are double-coded under 'Strategic-asset seeking' node, which is a sub-node of influencing factors on entry investment decision. The 'Parent company' node was also included to provide a brief overview of the parent companies' history and assets. Thus, in the Greenfield type, this node plays a similar role to the node of 'History and assets of the firm' in the M&A type. However, contents related to 'Parent company influence' on the firm in any form are also coded under this node. The 'Previous investment' node defines the parent company's previous internationalisation experiences including both trade and FDI. Although this node was structured to address Proposition 1-6, which assumes an 'influence of a firm's previous internationalisation experience on entry investment decision', considering the questionnaire structure and the context where the relevant contents were found from the data, it was put as a separate node rather than organised as a sub-node of 'Entry investment'. The next node is 'Entry investment', which has sub-nodes defining the influencing factors of entry investment decisions to cover the first set of propositions (Propositions 1-1 to 1-9). Later additional sub-nodes were included in this node based on the actual data throughout the coding process.

The ‘Post-investment stage’ node was created to consider a firm’s operation stage post investment such as performance after its entry, which may have some influence on the firm’s relationship with the parent company and expansionary or re-investment decision. Considering these issues and factors at firms’ operational stage can 1) link both significant investment decisions – entry and expansionary – throughout their investment and business cycle in the host as a whole process and 2) provide context and background for the expansionary investment decision. An ‘Expansionary investment’ node was included to reflect the propositions 2-1 to 2-5. At the beginning, individual sub-nodes covered each propositions; however, propositions 2-3 to 2-5 regarding mainly host regional factors were merged into one sub-node, ‘Host factors’. Table 21 summarises the definition of nodes (categories) and their relation to the propositions.

Table 21. Categories (nodes) of coding

Category	Definition	Propositions
History and assets of the firm	Overview of the firm	Partly related to Proposition 1-1
Parent company	Overview of the parent company’s own history and assets; its influence on the firm	
Previous investment	Parent company’s previous internationalisation experiences including both trade and FDI	Proposition 1-6
Entry investment <ul style="list-style-type: none"> ▪ Strategic-asset seeking ▪ Market seeking ▪ Institution seeking ▪ Host regional factors ▪ Home factors 	Influencing factors on entry investment decision	Propositions 1-1, 1-2, 1-3, 1-4, 1-5, 1-7, 1-8 and 1-9
Post-investment stage <ul style="list-style-type: none"> ▪ Performance ▪ External environment 	Factors influencing the firm at the operational stage after its entry	

Expansionary investment <ul style="list-style-type: none"> ▪ Duration ▪ Cultural distance ▪ Host factors 	Influencing factors on the firm's expansionary investment decision	Propositions 2-1 to 2-5
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Source: Author's summary

The next stage is the actual coding itself. The coding process involves “[i]dentification of associations amongst categories” and “continuous interplay between researcher and data in order to develop an organised and interpreted theoretical explanatory scheme” (Strauss and Corbin, 1998 cited in Fletcher and Harris, 2014). Data which was prepared at the first stage was imported to NVivo and organised by individual firm using a colour code. Coding was done for all the text imported and then the coded data were investigated several times so that it could be revised where necessary. Revision involved both re-coding certain data at a more appropriate node and inter-coding some data within a certain node to another node where it seemed to reflect more than one theme.

The last stage is data analysis in order to draw conclusions from the coded data (Zhang and Wildemuth, 2009 p.312). NVivo allows researchers to look at data either by its original sources or by an individual ‘node’ using the ‘Query’ command. Here, ‘pattern matching’ analysis, which is comparing patterns found from the data to expected ones based on previous knowledge/theory or pre-determined propositions in ‘deductive’ studies, was applied (Gibbs, 2002; Yin, 2012). The logic of this approach is to compare an “empirically based pattern” (Yin, 2012, p.16) from the data collected with the predicted theory-based one, and through this process researchers aim to establish “causal connections” between their investigation and prediction (Gibbs, 2002, p.158). If an empirical and predicted pattern coincide, the pre-determined propositions can be supported by the data, but if unexpected patterns emerge, this may lead to new propositions (*ibid*). Detailed discussions on actual findings from the analysis and implications will be dealt with in the following sub-section.

6.4.3. Findings and interpretations

Zhang and Wildemuth (2009) propose ‘reporting findings’ as the final step of an analysis. They argue that qualitative analysis is a process of “uncover(ing) patterns, themes and categories important to a social reality” and that this process involves ‘description’ and ‘interpretation’ which should be distinguished and balanced in a report of the analysis results (p.5). Yin (2012) also raises a similar argument that researchers need to take care of differentiating “evidence” from “interpretation” (p.15). Description of evidence provides readers with “background and context” (Denzin, 1989 cited in Zhang and Wildemuth, 2009) so that they can judge researchers’ interpretation of the data independently (Yin, 2012). Interpretation represents a researcher’s “personal and theoretical understanding of the phenomenon” in her or his study (Zhang and Wildemuth, 2009, p.312). Patton (2002, p.503-504) summarises the relationship between description and interpretation in “an interesting and readable report” as: “[it] provides sufficient description to allow the reader to understand the basis for an interpretation, and sufficient interpretation to allow the reader to understand the description” (Zhang and Wildemuth, 2009, p.312).

In ‘description’ of the analysis results, visual tools are useful aids for clarity. The use of summary tables can not only provide a summary of the evidence but it can also bridge from the evidence to the main ‘story’ which constitutes the theory (Eisenhardt and Graebner, 2007, p.29). For this reason, several previous studies have also followed this approach (e.g., Graebner, 2004; Gilbert, 2005; Zott and Huy, 2007 cited in Eisenhardt and Graebner, 2007) and thus, this study also takes this approach summarising the findings in tables in Appendix 4 and Appendix 5. Whilst the description of findings provide ‘background and context of the main story’ the ‘theoretical understanding’ of the findings, *i.e.*, ‘interpreting the findings’, is the main story itself. This is the final step of a case analysis, as Yin (1994) emphasises,

following the step of ‘logical linking of the data to the propositions’. Interpretation of the analysis results involves “a detailed explanation of how and why...(certain factors)...had (or had not) affected certain trends revealed in the data” based on theoretical assumptions (Yin, 2012, p.16). Here, Eisenhardt and Graebner (2007) raise an important point that “it is generally not realistic to support every theoretical proposition with every case within a text itself”, and therefore, the overarching purpose of the study is often that “each part of the theory is demonstrated by evidence from at least some of the cases (p.29). In order to have a clear guideline for the interpretation, the following is recap of the purpose of the case analysis of this study:

- 1) Findings on supplementing of Greenfield investment (triangulation)
- 2) Determinants of M&A cases
- 3) Findings on post-investment decision – investigating the determinants of expansionary investment

Within-case analysis was carried out by investigating individual nodes within the case. In within-case analysis, initially, primary data from interviews were considered and the analysis was supplemented with secondary data analysis. Cross-case analysis was carried out by comparing the coded contents from each case in the same category of nodes. For example, influencing factors of entry investment decision and expansionary investment decision were looked into individually by comparing firms within the same type of investment case (e.g., comparison between the interview firm and other secondary analysis case firms within the M&A type or within the Greenfield type) and comparing two types of investments (M&A vs Greenfield).

6.4.3.1. Interpretation of findings on EM firms Entry investment decisions to the West Midlands

To begin with, this study looked at the ‘entry investment’ case summarised in the Appendix 4 to address two initial purposes. The following sub-sections will look into the findings by category and discuss which propositions they support. The sub-headings will direct under which category the relevant findings were found and which propositions those findings can possibly support.

History and assets of the firm (M&A only) and parent company background/assets: Strategic-asset seeking proposition (Proposition 1-1)

The ‘History and assets of the firm’ category only refers to M&A firms whilst ‘history and assets’ of Greenfield firms were coded under ‘Parent company background’ together with parent companies of M&A firms. This is because the subsidiaries through M&A have been independent firms with history and assets distinguished from their parent companies’ whilst those of Greenfield firms are comparatively homogeneous with their parent companies. In the M&A type, all three firms (Firm 1A, 1B and 1G) are recognised in terms of their ‘leading’ positions. Considering that the data coded under this category is evaluation or comments on the firm from an external perspective such as parent companies’ or public reputation from news media (e.g., A leading British producer; the largest foreign company in the UK; vastly experienced in this sector and enjoys an excellent reputations), this part suggests the possibility of their parent companies’ interest in these firms’ history or assets influencing their investment decision.

This assumption is supported by coded data in the ‘Strategic-asset seeking’ sub-category under ‘Entry investment decision’ category. In the interview, Firm 1A stated the major reason for its parent company’s investment as the following:

“They were looking to buy assets in Europe...particularly a European manufacturer.”

This is closely in line with the parent company’s executive interview with its home country news media in which he described the investment in Firm 1A as acquisition of “modern technology, exclusively promising business asset”. In secondary analysis of the other two M&A firms (Firm 1B and 1G), their parent companies also expressly show their purpose of acquisition being to ‘access’ the established distribution network (e.g., distribution strategy), technology (e.g., modern technology; higher value added technology; world class manufacturers) or global clientele of these acquired firms, further supporting proposition 1-1 regarding the ‘strategic-asset seeking’ motivation of EM firms coming to the UK for M&A case.

Another significant point from the M&A data is that all three firms’ parent companies are much larger than the acquired firms whilst in turn they themselves are part of larger industrial groups. Previous studies have found that large EM firms often choose M&A for fast expansion in the global market, particularly those to DMs (e.g., Luo and Tung, 2007; Bertoni *et al.*, 2008; Sarala and Vaara, 2010; Holtbrugge and Kreppel, 2012). Data from Firm 1B also mentioned that “M&A’s are at the core of the growth strategy” for its parent company. Therefore, this study further supports this pattern of EM firms’ M&A investment in the DM country, with a DM host which has been relatively under-researched in previous studies – the UK.

In terms of the Greenfield investment, the parent companies of three firms (Firm 3A, 1L and 2A) also share similar characteristics in the within-case analysis. Both parent companies of Firm 1L and 2A possess leading positions in their own industry (lighting and biomass respectively) in their home economies (China) and Firm 3A’s also claims to be one of the

largest importers in its industry in the UK, which implies that the success at home may have inspired them to invest abroad even in upstream investment. Luo and Tung (2007) also argued that EM firms which have experienced success at home become ‘world-stage aspirants’ to catch up with their global competitors beyond their home border (see also Mathews, 2006).

Case firms in the Greenfield group also support the proposition 1-1 on ‘strategic-asset seeking’ motivation. The purpose of the proposition 1-1 for the Greenfield investment is to supplement the findings from the panel analysis where only Greenfield projects were included in the data set. The ‘strategic-asset’ assumed in the ‘strategic-asset seeking motivation’ hypothesis for panel analysis was ‘strategic-asset level’ of the host country such as innovation level rather than specific assets. The findings of the case analysis also support this approach as the Greenfield group firms highlighted the UK’s strength or strategic-asset level in their relevant industry as one of the key factors influencing their investment decision. In the interview, Firm 3A recognised that its industry is mainly maintained by the British (companies)” with “very strict standard and quality control”, which the industry lacks in its domestic market. The interviewee also pointed out that this was one of the main reasons behind its parent company investment into the UK. The following is a quote from the interview script:

“[A]lthough the housing market in China was booming and the construction started to come up everywhere, in the industry, they did not pay too much attention on safety or standards of the scaffolding product they used. They just used...(stuff like)...bamboo. That’s why the factory didn’t expand quite as fast as the beginning stage. Then it (the parent company) made a quite big decision to go oversea (the UK) to make British standard products”

The secondary analysis results are also closely in line with the interview data. Firm 1L recognised that the UK is a “leader in manufacturing technology” (in the interview of managing director with local business partnership media) and cites the UK’s “experienced lighting sales engineers...throughout the UK” (in the parent company’s web page) as important influencing factors in its investment decision into the UK. Although Firm 2A did not directly point out the UK’s strategic-asset level as an influencing factor, it started its FDI involvement in Europe with a similar motivation to this and mentioned that its further investments in Europe, including the one in the UK, were conducted in a similar context (reference from company web page). In this way, case analysis data strengthens the panel analysis results on ‘strategic-asset seeking motivation’ of EM firms’ Greenfield investments in the UK.

Comparing these two investment types for ‘cross-case’ analysis it can be concluded that although these two types of investment (M&A vs. Greenfield) differ in the specific characteristics of ‘strategic-asset’ being sought by the firms, both cases of investment type support the ‘strategic-asset seeking’ motivation proposition.

Previous internationalisation experiences in the UK or Europe: Proposition 1-6

The next category to be examined is ‘Previous internationalisation experiences in the UK or Europe’. Originally this category was created to cover EM firms’ previous investment or trade experiences in the UK or with UK firms in their home countries, which proposition 1-6 assumes to have influenced their investment decision into the UK. However, throughout the coding process, it was found that case firms often see the UK as a host country within the European context, so the scope of the category was extended to both the UK and Europe. Within-case analysis, in the M&A group, data revealed inconsistent results between the

firms. Both Firms 1A and 1G are the only asset their parent companies have in the UK and Europe. In Firm 1A's case, its parent company has previously been acquired as a part of an English industrial group, but the experience did not seem to have any influence on its investment decision into the UK (parent company annual report). In fact, the owning industry group of the parent company returned to Russian ownership before the acquisition of Firm 1A, and it has remained a Russian company until now. Firm 1B appears to be different as it has made several similar strategic acquisitions in Europe prior to its investment in the UK. However, their investment results vary regardless of their previous internationalisation experience: Firm 1A and 1B maintained their investment, but Firm 1G returned to its original ownership. Due to this 'inconsistency' in the data regarding this factor, it can be concluded that the M&A case does not support proposition 1-6.

On the other hand, this factor seems to be very relevant in the Greenfield case. All of the firms have investments or trade experience, either in the UK or with UK firms back home. In the interview with Firm 3A, the interviewee directly stated that "the main reason and the first one" for the parent company's investment decision into the UK was "because at that time they were already for a couple of years directly supplying from the factory into the UK" based on the network UK firms had established in China. In the secondary data analysis, Firm 1L has also already made investments in London, similarly led by its trade experience with UK firms at home, and this investment was expanded into the West Midlands region. Although Firm 2A data did not reveal any 'direct' relationship as other Greenfield firms' did, it had previous investment experience in other European countries and already had a UK reference prior to its investment in the UK. Therefore, it can be concluded that proposition 1-6 is supported by Greenfield data. This aspect was covered by a control variable – $Trade_{it}$ – in the panel analysis with a statistically significant and positive coefficient. However, as this variable was measured by a proxy of the total trade of individual EM countries, this does

not clearly show the effect of bilateral trade relations between the relevant EM firm and the UK on the EM OFDI. Therefore, this finding from the case analysis supplements the panel analysis results by demonstrating that EM firms' bilateral trade relationships with the DM host as well as their general trade experience have influenced their FDI decisions.

Based on the discussions above, in 'cross-case' analysis, it seems that the importance of EM parent companies' previous experience with the DM host company or in the DM host depends on the mode of entry of EM FDI. It seems that for M&A firms' parent companies, their previous connection with the host is not as significant as it is for Greenfield firms'.

Market seeking: Market seeking motivation propositions (proposition 1-2 and 1-3)

The 'Market seeking' category is intended to address both propositions 1-2, the market-push factors of the home country and 1-3, the market-pull factors of the host country. Although market push and pull factors were addressed separately in two different propositions, data found throughout the coding process suggests that these market push and pull factors are often interrelated, which further supports this study's hypothesis development logic – incorporating them into one variable, and therefore the coding categories of propositions 1-2 and 1-3 were also merged into one, *i.e.*, 'Market seeking'.

Based on the interview data, Firm 1A supports the 'Market seeking motivation' of its parent company's purchase. See the following quote:

“(Parent company) bought...(Firm 1A)...in order to help them to develop links and routes into the European market. That was their stated aim... They were clearly also interested in...supplying us significant amount of raw material all the way from Russia”

This was confirmed and cross-checked in the parent company's executive interview with home country local news media where he stated that "going into the European market" and "sending our own zinc there...without duties...(to increase)...the volume of sales in Europe" is one of its major purpose of the purchase of Firm 1A. Thus, the interview data support proposition 1-3 on market pull factor.

In the secondary data analysis, following a business report with a case study regarding FDI from Indian companies including Firm 1B in its industry (forging industry), these firms often invest in manufacturing components that went into defunct designs of the DM companies but still exist in other developing countries (Automotive, 2006). This kind of market motivation of EM OFDI has been suggested by Luo and Tung (2007) so that in EM OFDI case, EM firms often target a niche market which has already matured in DMs, and where many DM firms have withdrawn from the market. Moreover, these firms were also pushed by home-market competition caused by both domestic firms and other foreign firms, particularly those from other EM countries (Automotive, 2006). This aspect has also been suggested by previous studies that many EM firms face market constraints at home such as an underdeveloped market in the relevant industry at home or intense competition caused by globalisation, and that these constraints and competitions at home can work as push factor of EM OFDIs (e.g., Mathews, 2006; Luo and Tung, 2007). Therefore, both interview and secondary data of the M&A group support both propositions 1-2 and 1-3 on both market push and pull factors.

In the Greenfield group, the interviewee of Firm 3A mentioned that the industry (i.e., scaffolding industry) in its home market was not expanding fast enough despite the growth in relevant industries (e.g., housing) as quoted in the interview in the previous sub-section, implying 'market push factor' as influencing on its parent company's investment decision into the UK. The interviewee further emphasised this aspect as following:

“[T]he main reason of the investment abroad (of the parent company) is only because it can make more profit than in domestic markets”

In addition, the following interview quote from Firm 3A also implies its parent company’s investment in the UK was driven by ‘market pull factor’ as well.

“[T]he scaffolding product requires...most importantly a really good communication with customers...So, they (the parent company) had to set up company here to get better understanding of the market, which can really help the factory to grow.”

Other Greenfield firms (Firms 1L and 2A) from the secondary data analysis also saw the market potential of the UK in their industry and the possibility of expanding their market to Europe as an influencing factor behind their entry-investment decision to the UK. Firm 1L directly referred to ‘targeting European market’ as one of its major investment intentions in its CEO interview in news media (e.g., increase business in Europe, using...the UK as the gateway; success in the UK...as a springboard to our European expansion) whilst Firm 2A saw the UK as a “promising market” and suggested that this was an important influencing factor in its investment decision into the UK by stating that “the opening of a UK office is solid testament” to show its belief in “the potential of the UK market” (quote from parent company press release). Thus, the Greenfield group data also support both propositions regarding market push and pull factors.

For the cross-case analysis, findings from both investment groups (cases) support the propositions on the ‘market seeking motivation’ of EM firms in the UK. Another significant aspect found from the analysis under this category is that the UK’s membership of the European Union (EU) is considered as an attractive point for some firms. This issue was discussed in developing $UKregion_{it}$ variable as a control variable in panel analysis as EU

membership of a host country is often considered as attractive for investors due to the potential market expansion to Europe as well as within the host country. However, in the panel analysis, the results were rather surprising as the coefficient was statistically significant but negative. One possible explanation was that the UK's intensive involvement in the European market may have been regarded negatively by investors given the problems of the Euro-zone countries, implying that the proxy may have not captured the actual motivation behind this variable. Therefore, the fact that case firms considered the UK's being part of the European market as an important factor in their investment decision into the UK supplements the original assumption behind this variable development.

Institution seeking: Institution seeking motivation propositions (proposition 1-4 and 1-5)

The next category is 'Institution seeking', reflecting the last hypothesis from the panel analysis. Similar to the 'Market seeking' category, this category also includes both institutional push and pull factors assumed in proposition 1-4 and proposition 1-5 respectively. Here, 'institutions' refer to the 'institutional environment' of a country at a national level, consisting of both formal ones such as legal structures and informal ones such as people's perceptions and cultures.

In the within-case analysis, there is no clear evidence supporting these propositions from the primary (interview) data of either investment type group. However, in an annual report of Firm 1A's parent company, tax or customs legislation system of Russia and another major host country (Kazakhstan) were considered as risky factors for the parent company's business as they are subject to "varying interpretations and frequent changes" and there are "other legal and fiscal impediments" (quote from parent company annual report). This implies that

in its parent company's investment decision for Firm 1A, home country institutions may have acted as a push factor.

At the same time, in the secondary analysis of Greenfield group data, firms stressed advanced institutions in the UK as positive factors behind their investment. Firm 1L saw the UK's "investment, regulatory and legal environments...clearly defined and implemented impartially" as a significant influencing factor in their locational decision (quote from UKTI case study). Firm 2A also saw the 'institutional environment' of the UK such as 'respect for legal institutions' or 'motivated political environment' as a positive factor (reference from company press release). However, there is no direct quote regarding 'institutional push factors' from their home countries in the data from Greenfield firms.

In cross-case analysis, it can be concluded that whilst the secondary analysis results from the Greenfield group support the 'institutional pull factors' in panel analysis results on 'institution seeking motivation' hypothesis, it appears that 'institutions' are not a significant influencing factor for EM firms' M&A investment in DM.

Host region factors: propositions regarding the home country ethnic-group, the reference group and local government input in the host region (proposition 1-7, 1-8 and 1-9)

The 'Host region factors' category covers propositions regarding the existence of a home-country ethnic-group community (1-7) and the reference group (1-8) in the host region together with any host regional government's positive input towards IFDI attraction (1-9). These separate propositions were coded in one category as firstly all of them address 'host regional factors' and secondly additional host regional factors arose during the coding process as discussed below. Note that these factors are 'regional factors', so the emphasis of their influence is on locational decision to the West Midlands rather than entry decision to the

UK *per se*. In cross-case analysis, data coded in this category shows a clear contrast between the two types of investment. For the M&A firms, no data was coded. Intuitively, this may be because M&A investment focuses on the company rather than the host-regional factors. In fact, the interviewee of Firm 1A clearly mentioned this aspect as follows:

“It would have been the interest in...(Firm 1A)...as a company was their (the parent company’s) priority rather than the UK as a territory...(as)... what...(Firm 1A)...does is very much part of their (parent company’s) core business interest.”

On the contrary, data of the Greenfield firms suggest that several host-regional factors influenced their locational decision to the West Midlands, although the data only supports proposition 1-7. The following is Firm 3A interviewee’s answer regarding the question of why its parent company chose the West Midlands amongst the UK regions:

“When we were choosing the location, it had to be close to the existing customers and had to be good in terms of transport...We considered about London, but London was too expensive to rent...We thought Birmingham is probably an option...(as)...most of our customers are based in the West Midlands area.”

Based on the quote above, it seems that the main reason for Firm 3A’s locational decision to Birmingham was customer base and cost. However, he also directly referred to having a large Chinatown as a positive factor which influences many Chinese firms’ locational decisions to its location, Birmingham. In addition, he pointed out the ‘well-developed’ transport infrastructure of their location as a significant factor influencing their locational decision. Regarding the last factor, Firm 1L from the second data analysis also mentioned it as an important factor for its locational decision. However, considering that both firms are

based in Birmingham, special care needs to be taken over whether these factors are relevant to the West Midlands in general or specifically to Birmingham.

Based on the analysis so far, for cross-case analysis it can be concluded that the relevance of 'regional' factors differs depending on type of investment as they are more relevant to the Greenfield firms than to M&A firms.

Home factors

This category was created in addition to those specified in the original propositions and it covers home country factors such as a sudden boom in the relevant industry at home, or special policies for encouraging OFDI from home countries apart from push factors already covered by the categories above. In the M&A group, the parent company of Firm 1B saw the rapid growth in the industry at home as a positive push factor of their investment abroad, including its purchase of Firm 1B. In the Greenfield group, Firm 3A and Firm 1L, both of which are Chinese firms, strongly supported the idea that Chinese outward investment policy helped them to make FDI decisions. See the quote from the interview with Firm 3A below:

“Chinese government supported the steel-related manufacturing industry by cutting the tax and by giving tax rebate. They were very good incentives for factories to go abroad more”

In the secondary data analysis, Firm 1L has gained many business contracts from national events in its home country, China, such as the Beijing Olympics, which seems to have helped its foreign investment decision. This suggests that EM home country government's influence can include both direct policy and indirect business relationship. Moreover, considering that Firm 1L's initial investment in the UK was through M&A, this factor may be applied to both

the Greenfield and M&A cases at least in the Chinese OFDI cases. Chinese firms being influenced by their government policy such as the ‘Go global policy’ or other indirect influences such as through SOE or SWF have been observed in several previous studies regarding Chinese FDIs (e.g., Deng, 2004; 2007; Child and Rodrigues, 2005; Palepu *et al.*, 2005; Wei, 2010; Wang *et al.*, 2012). Therefore, this study further supports these previous studies.

6.4.3.2. Interpretation of findings on EM firms Expansionary investment decision in the West Midlands

One of the major purposes of this case analysis is to extend the analysis of EM OFDI to the ‘post-investment’ stage by looking at EM firms’ expansionary investment decisions. These decisions include not only expansionary investment *per se* but also re-investment (maintaining investment) with possible further capital investment or withdrawal of initial investment. Table 22 summarises the case firms’ expansionary or re-investment decisions.

Table 22. Expansionary/re-investment decisions

	M&A	Greenfield
Interview	Firm 1A: Proposal for further capital investment through its parent company’s permission; The capital investment plan was delayed and adjusted, but ready to be carried out.	Firm 3A: Capital investment
Secondary case	Firm 1B: Expansionary investment in 2007	Firm 1L: Several expansionary investments
	Firm 1G: Return to its original ownership	Firm 2A: Maintain its investment

Source: Author’s summary

As can be seen in Table 22, M&A firms demonstrate various expansionary investment decisions. Based on the interviews, Firm 1A's expansionary or re-investment decisions are generally made by Firm 1A itself, but require its parent company's permission if the investment plan is large. It proposed a very large size of capital investment project plan to its parent company at the time of the first and second interviews and acquired the parent company's approval shortly after the second interview. The following are direct quotes from the interview regarding details:

“We are looking at the possibility of a very major investment, which would completely redevelop our manufacturing processes. Of course, if you are looking to spend a large amount of money...it is...necessary to agree your large strategic investment with your owner.” *First interview*

“It is question of getting the translation over to them then it will be a waiting period I would estimate of between one and two months.” *Second interview*

“The original plan was presented to our owners and it was approved.” *Third interview*

However, the project was delayed due to unfavourable external conditions such as exchange rates whilst the investment size has been adjusted to a smaller but “realistic” level under the given circumstances. At the third interview, the firm was ready to carry out this adjusted capital investment plan. Secondary data firms show contrasting movements in their further investment decisions. Whilst Firm 1B made an expansionary investment in the year following the initial investment, Firm 1G has returned to its original ownership without any expansionary or re-investment.

In the Greenfield group, no firms have withdrawn or decreased their original investment. Firm 3A made a capital investment plan, which the interviewee considered as to increase its

business size and change its business direction for further “expansion of its market reach”. Between secondary case firms, Firm 2A maintained their investment whilst Firm 1L made several expansionary investments in the region.

Firms Performance and its influence on their further investment decisions

Before looking into the coded data regarding ‘expansionary decision’, the firms’ ‘post-entry stage’ was considered. This aspect was investigated mainly through ‘the performance of the case firms’ and here, ‘performance’ mainly refers to firms’ business outcomes such as success or failure in sales, profit or other business strategies. Although the possibility of whether firms’ performance influenced their further investment decisions was investigated under this category, the purpose of this category is mainly to provide context for the post-entry stage where firms’ further investment decisions were made rather than proposing theoretical assumption of its influence on firms’ expansionary or re-investment decisions. This is because the influence of firms’ performance on any business decisions including investments is an intrinsic one. In this sense, this aspect was addressed separately rather than being included as a sub-node of the ‘expansionary investment’ category.

In the M&A case, both Firms 1A and 1B suffered from decreased sales volumes and financial difficulties based on their parent companies’ annual reports. Firm 1B’s parent company even made cost reduction decisions including headcount reduction. In the Greenfield case, results vary. Whilst Firm 3A experienced a fall in profits for the two years following its investment in the UK, the others, Firms 1L and 2A seem to have enjoyed success with the former seeing a growth both in its turnover and business size and the latter winning important UK government contracts in the industry. Firm 1L even increased its workforce by more than 70 employees.

The major influencing factors on firms' unsuccessful performance are external ones. Therefore, there is only one sub-category under 'Performance': 'External environment'. Both interview Firms 1A from the M&A group and 3A from the Greenfield group agreed that exchange rate affected their performance. See the quote from both interviews below:

"The business then entered a patch of reduced profitability and this is to do with exchange rates." *Firm 1A*

"It was 1 pound to 15 RMB, but it is now 1 pound to 9.6-9.7. Effectively, the cost has gone up." *Firm 3A*

Similarly, the parent companies of Firm 1A and 1B recognised subsequent impacts of the global financial crisis or economic recession which occurred after their investment, such as a fall in their product price (e.g., drastic decrease of world zinc prices...and lead prices) or downturn in the relevant industry (e.g., the downturn in the automotive industry across the globe), as key reasons for poor post-investment performance of Firm 1A and 1B in their annual reports.

However, this poor performance, mainly caused by external environments, did not have critical negative influence on firms' further investment decisions such that their parent companies decided to withdraw investment. Although Firm 1A had to delay its planned capital investment project and adjust the size of the investment plan, it was mainly Firm 1A's own decision rather than being compelled by its parent company. The interviewee of Firm 1A considered that this experience rather helped its relationship with the parent company to develop further. See the following quote:

"[T]hey (parent company) looked very hard with us at what was driving... (our poor performance), which we would not normally expect...Having said that the process of question and answer and the looking for what was causing the impact together...has led to closer working...We are probably closer to them now than we were."

Firm 3A's parent company also supported its capital investment plan to increase its business size despite its poor performance at the initial stage based on the interview.

Expansionary or re-investment decisions

The 'Expansionary investment' category and its sub-categories directly address propositions regarding this issue. Although the main reason for the expansionary or re-investment decisions of the case firms is market expansion, the data analysis revealed that there are factors which influenced firms' operation or relationship with their parent company, which in turn influenced on their or their parent companies' further investment decisions. Here, in setting up propositions and coding categories regarding 'expansionary investment decisions' and in analysing the relevant data, 'embeddedness' was a key concept as discussed earlier. The fundamental assumption here is that factors which help or hinder a firm's embeddedness will influence positively or negatively any further investment decisions at the operational stage in the host. Propositions were set up to address these possible factors but during the coding process the sub-categories were adjusted depending on what the data revealed.

Duration of operation: proposition 2-1

The first category as an influencing factor on firms' expansionary investment decision is 'Duration of a firm in the host', linked to proposition 2-1. In the analysis of interview data, interviewees from both Firm 1A and 3A saw development or improvement in 'communication' and 'understanding' with their parent companies as time went by and

agreed that this helped to their parent companies build ‘trust’, which had further positive influence on their operation and business.

Looking at the implication of this aspect in more detail, firstly, Firm 1A was acquired by a Russian company, but its operation has been fairly autonomous (this aspect will be discussed in more detail in the following section). The interviewee suspected that one of the reasons for this autonomy at the beginning of the post-investment stage was:

“Compared to the parent business, we are relatively small...I suspect that the financial numbers associated with...(Firm 1A)...are attractive to them, but nonetheless...(it has not been)...their (parent company’s) top priority in terms of development of their total business interest”

However, Firm 1A at the same time wanted to raise its “profile on the radar of its owners” and this actually happened after one of the new senior staff from the parent company visited Firm 1A and saw the operation. The parent company started to supply raw material to Firm 1A, which was not happening much until then, and approved its capital investment project, which is of such a large size (the interviewee did not want to give detailed figure) that Firm 1A needed “the parents’ blessing in going ahead and spending that money” although it usually has autonomy in its capital expenditure “in the way that any normal independent business might expect to”. The interviewee considered that the relationship with its parent company was “developing” and that Firm 1A was working more closely with the parent company than previously. He also saw the input from the parent company as growing in terms of resource and technical support whilst the autonomy of Firm 1A in its operation “remains as where it was”. Regarding the reason for both relationship and trust development between Firm 1A and the parent company, the interviewee thought:

“We have a good record of hitting our budgets and delivering the results that our owners are looking for. They trust the management team. They let

us get on with running the business...I think that the two factors together, both the strength of the technical proposal and their trust in our historical performance and our management team let to its approval”

In this sense, Firm 1A saw that its duration of operation under its Russian parent company ownership has had quite an immediate influence on its further investment decisions, as the parent company’s trust in its operation and decision making has developed as time has gone by.

In a very similar context, the interviewee of Firm 3A also agreed that the duration of its operation helped to reduce “conflicts and arguments” and build up “trust” and “understanding” amongst staff within the firm. Moreover, he noted that Firm 3A’s communication with the parent company, which was its only cultural distance issue (this aspect will be discussed in more detail in the following section), has also improved as time has gone by, which further contributed to its better operation. See the following quote:

“As time goes by, all the staff’s experience grows and the trust (amongst them) builds up then the operation gets smoother. Not too many conflicts or arguments. In that sense, the operation gets better and better”

Although there is no additional secondary data regarding ‘duration’ in the M&A group, some of the Greenfield group data suggest that once the firms’ business or operation becomes significant in the host region as time goes by, their ‘relationship’ with relevant local government or business networks is also established and in turn, further develops their business and investments. For example, Firm 2A’s success in gaining a local government contract was considered to be advantageous not only for the relationship between the firm and the local government but also for the perspective of further business partnerships with other UK regional bodies and industry groups (reference from company case study and news

media). Similarly, at one ceremony marking Firm 1L's expansionary investment, the CEO of the parent company visited the premises showing his great satisfaction with its performance and previous expansion implying that this had positive influence on the further expansionary investment decision (reference from CEO interview). This finding can be understood in relation to this study's assumption regarding the influence of a firm's embeddedness in the host on its expansionary investment decision. A firm's success and satisfaction regarding initial investment often leads to expansionary investment which brings benefit to the local economy and in turn develops a positive relationship between the firm and the local host region further strengthening its embeddedness (Nguyen, 2016). Therefore, in the Greenfield case, if the firms' performance goes well, the duration of operation can have some positive impact on firms' further investment decisions by influencing on firms' developing relationships with the parent company and other relevant business network, which is related to embeddedness and thus, to the expansionary or re-investment decisions.

In conclusion, in both the M&A and Greenfield cases, the duration of operation post-investment can have a positive impact on the factors which influence firms' embeddedness and in turn, expansionary or re-investment decision, such as building more trust in the parent company in the subsidiary or reducing some cultural difference issues, which hinder firms' embeddedness or establishing business network in the region.

Cultural Distance: proposition 2-2

The next category as an influencing factor on firms' expansionary investment decision is 'Cultural Distance', linked to proposition 2-2. 'Cultural' or, more broadly, 'institutional' distance between home and host country, is the main cause of 'liability of foreignness', and therefore it can be assumed that efforts or failure to reduce this distance can affect

embeddedness and further investment decisions either positively or negatively. The reason for the title being ‘Cultural distance’ rather than ‘institutional distance’ was that the term ‘culture’ is easier to understand in a non-academic context where the case analysis data were collected (e.g., interviews; news media) than ‘institution’, a theoretical term. Therefore, data related to ‘cultural/institutional difference’ or ‘liability of foreignness’ caused by it was coded under this category.

Firstly, regarding the question on whether there have been any issues or difficulties caused by cultural/institutional differences, the interviewee of Firm 1A from the M&A group did not see many issues “at a cultural level” other than “language barrier”. See the details from the interviewee’s response in the following:

“I don’t think culture has really been an issue. Language barrier is evident. It sometimes takes longer to convey meaning and to develop understanding. There is translation involved...But...the senior people that we are in contact with have really very good English language skills... In terms of day-to-day interaction and the way that they run the business, I’m sure it is very Russian...(but)...the way that...we interact with...(them)...is not very different from how we would expect to interact with people who might work in a large western corporate organisation.”

Moreover, although Firm 1A’s relationship with its parent company has been very good, at the same time it had been operating quite independently to the extent that it ran its own business “in the way that any normal independent business might expect to” as quoted in the previous section. In fact, the parent company secured all of the existing management team and employees when it purchased Firm 1A. For the reason why Firm 1A could have “great freedom and autonomy” in its operation, the interviewee considered that, at least at the beginning, it may have been partly because of the fact that the business size of Firm 1A is relatively small compared to that of its parent company. However, at the same time, he also

thought that considering the main reason for the parent company's purchase of Firm 1A was "to develop links and routes into the European market", it may have been a form of strategic approach for the parent company to allow Firm 1A, which understands the target market better, to have a high degree of autonomy. See the following quote from the interview:

"Their primary strategic aim was to help them to develop European markets. Having said that they have given us autonomy and they haven't directed our sales strategy. The growth of the business is really something that we have driven locally rather than under their instruction...They don't understand the market in the way our sales team do and they are happy to let us develop the market."

This may be because keeping the acquired firm, which was locally established and grown, as the local actor can reduce the parent company's 'liability of foreignness' in the host, one of the major hindrances to embeddedness of the foreign investment. The 'cultural/institutional distance' is particularly significant for the M&A firms as the distance firms face as a result of M&A is manifold, with one at a national level between the host and home country and the other at the firm level between the parent company and its subsidiary which was previously a host local firm. It seems that the liability of foreignness of Firm 1A's parent company could be reduced by retaining the acquired firms' operations, which originate from and are already embedded in the host region, as it has been.

This assumption is supported by secondary case analysis as well. The secondary data from firms Firm 1B and 1G showed contrasting post-acquisition approach from their parent companies and the results of the investments. Firm 1B, purchased as part of the parent's expansion in Europe, maintained its own brand and strategic-assets as was the case for the parent company's other firms acquired in Europe. It made an expansionary investment just after its initial investment and has maintained its business since then. Conversely, Firm 1G,

whose former parent company has withdrawn their investment and which has returned to its original ownership, operated under the parent company's brand rather than its own, in contrast to Firm 1A's or 1B's case. Here, data on Firm 1G do not prove anything definitively. However, considering the fact that its re-independence was welcomed by both the company and other stakeholders including customers and suppliers, and that when the firm returned to its original ownership, the first action was to revert to its original name to recover its reputation, it can be assumed that the contrasting approach of Firm 1G's former parent company to those of Firm 1A and 1B's parent companies regarding acquired firms' autonomy was not very successful. In this way, through the 'principal of maximum contrast', the secondary case analysis supports the assumption from the interview analysis that the liability of foreignness of foreign parent companies in the M&A case could be reduced or embeddedness of them could be achieved by keeping the local firms as local rather than changing their identity or culture considering the clear contrast between Firm 1A & 1B and Firm 1G's cases. Therefore, here proposition 2-2 is supported.

'Localisation' of the subsidiary in the UK seems to be an important issue for the Greenfield firms as well related to 'cultural difference' issues. Firm 3A's employees are mostly British including its director and in fact, the interviewee of Firm 3A was the only home country national employee in the firm – Chinese in this case – though he had studied and lived in the UK for almost 10 years and therefore did not have any cultural difference issues with other local employees. Moreover, he considered the fact that the majority of employees were local as one of the reasons why Firm 3A did not have any 'cultural difference' issues in doing business in the region as a foreign company.

However, he pointed out that "the only cultural barrier" the Firm 3A has is the one "between this company and Chinese shareholders/parent company" mainly due to miscommunications

caused by the geographical distance and time differences. The following is a quote from the interview:

“[T]hey don’t get involved what is happening in the UK daily and also the long distance and time difference...(is problem)...When we are working they sleep but when they are working we sleep!...All these kinds of little things can create confusion or disbelief. That was our problem which made us feel there was a barrier particularly between top guys in our parent company and people working here”

Although this problem has been reduced as time has gone by (see more details in the ‘Duration’ section above), he also put forward his effort to improve communication and understanding between two parties (Firm 3A and the parent company) as another contributor to resolve this issue as can be seen in the following answer:

“This problem came because they did not get the same information they wanted or their request did not get passed to the UK staff clearly or accurately. So I spent more time communicating between these two parts and tried to make them understand each other more. In that way, we tried to reduce the confusion and increase more belief and trust within the company”

Considering that he joined just after the parent company had made the investment in the region (Firm 3A) and the importance of his role as a home country expatriate who understands the languages and cultures of both home and host countries, he agreed that there is a possibility of the parent company’s hiring him being a strategic approach. See the following quote:

“You have to have that kind of bridge (between a foreign subsidiary and the parent company). It is a good solution for all overseas companies or groups or organisations to have somebody doing communication to make everybody understand each other better”

Based on the discussions so far, it seems that localisation is as important for Firm 3A, which is a Greenfield firm, as it is for the M&A firms, to successfully deal with cultural difference; at the same time, the details are different such as the role of expatriate, which is critical for the Greenfield firm. This aspect is supported by secondary analysis as well. For example, Firm 1L also has a majority of local employees and only a few expatriates in their employment structure. Firm 1L's managing directors in the UK subsidiaries is also British. Particularly, Firm 1L's CEO is strongly aware of the importance of getting over the difficulties arising from cultural differences and of 'localisation' of the subsidiary in the host. He directly expressed his firm's strategy such as hiring mainly host country local employees and providing them with better benefits in both financial and welfare terms than other UK companies in the same industry as an effort to establish "the best possible image" of the firm in the host (references from CEO interview with news media). At the same time, Firm 1L's director in his interview with local media also emphasised the main role of a few Chinese expatriates in the UK subsidiary as "to liaise" with the home country parent company factories (reference from CEO interview with news media). Considering that Firm 3A has remained viable since its initial investment despite its poor performance at the beginning, and has recently made further capital investment (re-investment), and that Firm 1L has expanded its businesses within the region several times, it seems that successfully dealing with cultural distance through hiring local employees and exploiting the roles of 'expatriates' has had a positive influence on their further investment decisions. In this way, Greenfield investment data also support proposition 2-2.

From cross-case analysis it can be concluded that for both M&A and Greenfield groups localisation helped in dealing with the 'liability of foreignness' issue, although the context differs depending on the type of investment (i.e., allowing autonomy for M&A group vs.

localisation supplemented with utilising home country national employees). In both groups, this localisation helped the firms' embeddedness, which had positive influence on firms' expansionary investment decisions.

Host Factors: proposition 2-3, 2-4 and 2-5

The next category is 'Host factors'. This category addresses propositions 2-3, 2-4 and 2-5 regarding the presence of a reference group, home-country ethnic-group community and local-government support in the region respectively; although initially three separate categories, set up to address each of these propositions, they were merged into one category, 'Host factors', during the coding process based on the data. Regarding this aspect neither interview firm saw 'host factors' have any influence on further investment decisions directly or indirectly by influencing their operations. In the secondary data, there was no data to suggest that host factors have influenced an M&A firms' expansionary investment decisions. For the Greenfield firms, Firm 1L said that UKTI and another regional business partnership, Business Birmingham, helped it settle in the UK and helped it make expansionary investments in the region by introducing business networks and opportunities in the region to the firm. Both its executives and the parent company CEO recognised that the firm's good relationship with them made it 'feel at home', implying more 'embeddedness' in the host (references from UKTI case study and CEO interview with news media; details can be found in Appendix 5). Furthermore, the parent company CEO pointed out that their initial investment through acquisition in London, which ended up as a 'pilot' investment without being maintained or expanded, experienced many difficulties due to problems with 'post-acquisition integration' (reference from CEO interview with news media). Considering these aspects, one of the major factors which affected the company's expansionary investment decision into the region was help from local government and business partnerships which in

turn strengthened embeddedness in the host. Therefore, the data supports proposition 2-7 for Greenfield firms.

6.5. Summary of the second part analysis

This section intends to summarise the analysis results discussed above as presented in Tables 23 and 24, and discuss the implications briefly as a concluding section.

Table 23. Summary of the analysis results – Entry investment

Entry investment	Within		Cross
	M&A	Greenfield	
Proposition 1-1: Strategic-asset level of the UK was an influencing factor in EM firms' investment decision to come to the UK	Support	Support	M&A: specific, tangible strategic-asset Greenfield: strategic-asset level of the UK
Proposition 1-2: EM firms' home country market constraints were a push factor in influencing EM firms' foreign investment decision	Support	Support	Both: customer base, EU and niche market as pull factor; home country competition and lack of customer base as push factor, underdeveloped home market as push factor
Proposition 1-3: The UK's advanced market condition was an attractiveness factor in EM firms' investment decision to come to the UK	Support	Support	
Proposition 1-4: EM firms' home country institutional constraints were a push factor in EM firms' foreign investment decision	Indirectly suggest		M&A: home country underdeveloped institutions as push factor (just suggestion) Greenfield: advanced institutional environment in the UK as pull factor
Proposition 1-5: The UK's advanced institutional environment was an attractiveness factor for EM firms' investment decision to come to the UK		Support	
Proposition 1-6: EM firms' internationalisation experience through a variety	Not sufficient to support	Support	M&A: vary Greenfield: previous trade experience; investment

of linkages with foreign firms or foreign markets influenced their investment decision into the UK			experience in the UK; investment experience in Europe
Proposition 1-7: The existence of a substantial home country ethnic group community in the West Midlands influenced on EM MNEs' investment decision into this region	No data	Firm 3A data support	
Proposition 1-8: The presence of the reference group in the West Midlands influenced on EM firms' investment decision into this region	No data	No data	
Proposition 1-9: The positive input of the West Midlands local government for inward investment influenced on EM MNEs' investment decision into this region	No data	No data	
New proposition on home country government influence		Support	Home country government policy for Chinese firms' case

Source: Author's summary

Table 24. Summary of the analysis results – Expansionary investment

Expansionary investment	Within		Cross
	M&A	Greenfield	
Performance	Not satisfactory	Some satisfied some not	Both: external environment
Proposition 2-1: Duration of EM firm's operation in the West Midlands will influence their re- or expansionary investment decision.	Support	Support	Both: in a way that duration influences trust of parent companies in the case firms and the relationship between the case firms and their parent companies Greenfield: duration also helps develop firms' relationship with local business network and in that way it can influence further investment decisions

Proposition 2-2: EM MNEs' strategies of overcoming institutional/cultural distance will influence on their re- or expansionary investment decision	Support	Support	Both: localisation of the subsidiaries in the host M&A: autonomy; maintaining firms original brand and employees Greenfield: local employees, but the role of expatriate is also important
Proposition 2-3: The presence of the reference group in the West Midlands and their roles will influence on EM MNEs' re- or expansionary investment decision	Not supported	Not supported	
Proposition 2-4: The existence of a substantial EM firms' home country ethnic group community in the West Midlands and their role will influence on their re- or expansionary investment decision	Not supported	Not supported	
Proposition 2-5: The relationship between EM MNEs and the West Midlands local government will influence on their re- or expansionary investment decision	Not supported	Support	Greenfield: Strong local government and business partnership help

Source: Author's summary

In order to conclude the analysis, a reminder of the purpose of the case analysis will be helpful. They are as following:

- 1) To supplement quantitative analysis results of Greenfield investment with qualitative analysis (triangulation)
- 2) To investigate determinants of M&A cases
- 3) To explore EM firms' post-investment decision – investigating the determinants of expansionary investment

The first purpose of the case analysis was to supplement findings on EM Greenfield FDIs in the UK from panel analysis through triangulation of methodology. Propositions 1-1 to 1-5 were repetition of the hypotheses developed there. Except for institutional push factors from the home country, the other propositions were supported by case analysis data. Therefore, it can be concluded that for EM OFDI to DM countries, strategic-asset level of the host country, both market-push factors and pull factors from home and host country, and a better-developed institutional environment in the DM host country have influence on EM FDI activity. In addition, the data also supported and supplemented the results regarding some of the control variables in the panel analysis, such as '*UKregion*' and '*Trade*'. There is also additional influencing factors which could not be covered in the panel analysis, *i.e.*, home country government policy influence. It can be concluded that at least Chinese firms are influenced by government policy on OFDI.

The second purpose of the case analysis was to investigate influencing factors of EM M&A investment in the UK, which could not be addressed in the panel analysis due to data availability. For EM firms, M&A investment decisions in the UK as a means to acquire firms' own tangible strategic-asset is an important determinant. Both market push and pull factors from home and host countries are influencing factors in EM firms' M&A investment decisions in the UK as well. Although there is no clear and direct evidence regarding institutional factors' influence on EM firms' M&A decision in the UK, some data imply that home country institutional constraints may have had some effect on EM firms' foreign investment decisions.

The last goal of the case analysis is to investigate determinants of expansionary investment. It appeared that firms' poor performance affected by external factors did not have any critical negative influence on further investment decisions by the firms or their parent companies. For both groups, duration of operation helped firms to gain trust from their parent companies

and the local community of the host region, which led to smoother operation of the firms and thus had positive influence on firms' further investment decisions. In this way, proposition 2-1 is supported by the data from both groups. Proposition 2-2 is also supported from both groups and based on the data, it seems that 'localisation' is important in dealing with 'cultural difference' or 'liability of foreignness' issues for both investment groups. However, the details differ depending on the type of investment. For the M&A group, it seems that allowing 'autonomy' of acquired firms, which was originally a 'local' firm of the host region, is a successful strategy for 'localisation' based on the contrasting results regarding the case firms' expansionary investment decisions and their parent companies' approach in allowing 'autonomy' for the firms. For Greenfield firms, although 'localisation' of the subsidiaries in the host region is as important as for M&A firms, at the same time expatriate employees' roles in these firms as bridge between the subsidiaries in the host region and the parent company in home countries seems to be critical. Lastly, although there was no primary data from interviews, there were some secondary data from the Greenfield group which support proposition 2-5. Firm 1L directly quoted 'strong support from local government and business partnership' as one of the significant factors which influenced its expansionary investments in the region. Therefore, Proposition 2-5 is supported by the Greenfield case.

Here, the fundamental assumption behind all the propositions regarding the influencing factors on expansionary or re-investment decisions is that factors which encourage 'embeddedness' either directly or indirectly by reducing 'liability of foreignness' will have positive influence on expansionary or re-investment decisions. Therefore, based on the discussions so far, it can be concluded that although not all of the propositions this study suggested were supported by the analysis results, the fundamental assumption of this study on firms' expansionary or re-investment decisions was supported.

Ch.7 CONCLUSION

7.1. Introduction and summary of the thesis

This final chapter includes a summary of the earlier chapters and also draws conclusions and discusses the implications of the findings from the analyses described in the earlier sections (Perry, 1998, p.5). Chapter 1 introduced the research questions together with an overview of recent trends and studies within the main research subject (EM OFDI), along with a review of its historical development. Recent data showed that EM OFDI has been a rapidly growing phenomenon and that there is an increasing number of newly joining EM countries within this group. At the same time, the overview of recent studies suggested that it is still a relatively ‘unexplored area’ with EM OFDI to DM particularly remaining a fairly ‘under-researched’ topic (e.g., Cuervo-Cazurra, 2012; Gammeltoft *et al.*, 2012). Based on the background research of EM OFDI, this study examined the determinants of EM OFDI into the UK and the factors behind their subsequent investment decisions into the UK in order to bring both pre- and post-investment stages together. This in itself is a fairly novel approach within EM OFDI studies. In this way, this study intends to fill a gap and contribute to extending the understanding and scope of the relevant FDI and IB areas.

Chapter 2 was a contextualisation chapter, where the definition of EMs in this study was set and the significance and implication of the UK and the West Midlands as a host for IFDI was evaluated. As there are no clear criteria for defining an EM, in order to set a specific boundary for the definition of EMs this study applied ‘historical categorisation of EM OFDI’. Considering the generally agreed characteristics of EMs - that they are ‘new’ and significant enough to be noticed, but at the same time are not completely ‘emerged’ yet - this study

selected EM countries which are ‘newly joining’ to this EM OFDI group following the second wave. At the same time, this study also included ‘returning Latinas’ as they show characteristics distinctive from those involved in the first wave from the same region. Analysing the data on IFDI projects into the UK and the West Midlands, both host country and region seem to have been performing well, which justifies the significant phenomena this thesis explores. In addition, the data on this host country and region, demonstrates a range of policy implications as well, adding additional significance to this study’s host selection. The ‘Policy implication’ section of this chapter will discuss this matter in more detail.

The literature review and theoretical framework was developed in Chapter 3. This chapter reviewed traditional FDI theories and found that they have emphasised the key role of Ownership advantage in MNEs’ FDI decisions and agreed that FDI development in a conventional FDI perspective is gradual and incremental in terms of locational decision making depending on a country’s economic development or a firm’s experience. However, EM OFDI to DMs suggested a range of novel characteristics which are missing in traditional theories, such as EM MNEs’ lacking their own FSA to exploit in a foreign market. Their radical internationalisation pattern (e.g., an upstream investment) is not very incremental or gradual considering their often brief experience of FDI and economic development. To understand these novel characteristics of EM OFDI to DM hosts, this study introduced a ‘Resource-Based View’ theory adapted from EM firms’ perspective in developing a theoretical framework. The original RBV theory emphasised the importance of ‘valuable resource’ (FSA in traditional FDI theories) and internalisation (exploitation in traditional FDI theories) for a firm’s success. At the same time it stressed the strategic importance of the selection and deployment of resources. For example, Grant (1991) saw how ‘filling the resource gap’ and ‘augmenting the resource base’ can be a firm’s strategy regarding resources. In addition, the imbalance concept of RBV suggests that FDI can be motivated by

firms' disadvantages as well as advantages. In this context, when RBV is adapted from EMs' perspective, this theory can provide a theoretical framework for understanding EMs' distinctive evaluation of resources and access to resources, which shape their OFDI motivations and determinants. Within this framework, EM OFDI to DM host can be understood as motivated by necessary resource access and transfer so that they are able to fill the resource gap (see Figure 4). Here, the disadvantages of EM firms and their home countries work as a push factor of EM OFDI based on imbalance theory, whilst the advantages/resources of DM host countries, which are relatively more advanced and abundant than EM home countries, attract EM OFDI to these hosts. In addition, the highly globalised world works as both an additional push and pull factor as this trend intensifies competition in the EM home market by pushing EM firms to go abroad for investment whilst turning EM firms' resource access direction outwards from a 'latecomers' perspective and encourages them to undertake FDI for their 'catching up' strategy, working as an additional pull factor.

Institutional theory was also applied to supplement the framework by providing a theoretical grounding for a more specific level of analysis, considering the significance of institutional aspects in EM OFDI analysis such as 1) EMs' recent experience of radical institutional changes through the globalisation and liberalisation process; 2) EM home country institutional constraints; and 3) the significant institutional difference between EM and DM. Amongst the major views of institutionalisms, New Institutional Economics (NIE, North's variant) and New Organisational Institutionalism (NOI) were selected for this study's theoretical framework development in light of their level and focus of analysis. NIE explains that institutions influence transactions within a society by determining transaction costs, and in turn, the performance of economies. Here, the enforcement of institutions is as important as institutions *per se*, and therefore the 'state', which designs the formal institutional structure

and possesses ‘coercive enforcement’ power, becomes an important unit of analysis. NIE is mainly applied for the first-part analysis. Applying the well-known analogy of North (1990) regarding institutions and organisations (*i.e.*, ‘rules of the game’ and ‘players’) within the adapted RBV theoretical framework, ‘institutional resource advantage in the DM host (pull factor) and disadvantage in EM home (push factor)’ work as ‘rules of the game’ by constraining and influencing EM MNEs, the players in the FDI market.

For the second-part analysis, whilst the NIE approach regarding the persistence of informal institutions supports the assumption of this study regarding EM MNEs’ strategic reaction towards the ‘institutional duality’ between home and host institutions, NOI is also introduced to assist in setting up propositions in this part. NOI focuses on organisations’ interrelationships with other organisations and surrounding institutional environments in terms of how they gain ‘legitimacy’ in a given circumstance. This study particularly employs the principle of isomorphism from this institutionalism, focusing on ‘coercive’ and ‘mimetic’ isomorphic pressure to investigate EM OFDI’s post-investment stage, where EM MNEs strategically deal with institutional duality between informal institutional constraints inherited from home countries and coercive institutional pressure from the host country’s formal institutional structure and in some cases, additional coercive pressure from parent companies back home.

Once the theoretical framework was developed, the methodological decision of this study was developed in Chapter 4. For its epistemological position, this study selected the ‘realism’ position which provides a ‘realistic’ approach in selection of methods based on a given context or practical issue in the research as an alternative to the strong dualism between positivism and phenomenology (Olsen, 2004). Taking this ‘realist’ epistemological position, this study aimed at ‘methodological triangulation’ by applying both quantitative and qualitative methodology to the research questions which are addressed in two separate parts

of the study. Employing different methodologies for each part can realize several advantages, as it helps to select the most appropriate methodology for the relevant part depending on the research question and the strength of each methodology. In addition, findings from multiple methods can be cross-checked and confirmed by each approach. Considering the research scope and questions addressed in each part of the study, quantitative methodology was applied to the first part of the study, an analysis of causal relationship (determinant study) at national level, and qualitative methodology for the second part of the study, which aims at supplementing the first part of the study and extending the scope of the study to the post-investment stage by narrowing down the analysis level to the regional and firm level.

For the specific quantitative and qualitative methodologies, panel analysis and case analysis were selected respectively. Panel analysis consists of both dimensions of cross-section regression and time-series and therefore, it can estimate ‘dynamics of change’ through “sequential observations for a number of individuals” whilst allowing estimation of dynamic relationships between subjects with fewer time series observations (Frees, 2004, p.7). Equally, case analysis has strength in “bridging from rich qualitative evidence to mainstream deductive research” (Eisenhardt and Graebner, 2007, p.25), and therefore is often used “to refine knowledge” by focusing on particular issues within the broader scope of study (Hakim, 1987). This is particularly helpful for this study’s methodological triangulation purpose. In addition, as case analysis is appropriate for contextual analysis and identifying relationships (Yin, 2003; Holtbrugge and Kreppel, 2012) this methodology was appropriate for the second part of this study which investigated ‘why’ EM firms chose the UK and the West Midlands and ‘how’ the factors assumed in the propositions affected their investment decisions at both the entry and operational stages.

The methodology chapter was followed by two inter-related analysis chapters, chapters 5 and 6. Chapter 5 provided an analysis of the determinants of EM OFDI into the UK at national level whilst chapter 6 analysed the influencing factors on EM OFDI into the UK at regional level at both entry stage (to consolidate and supplement the findings from Chapter 5 with a qualitative methodology and by including M&A data analysis) and at post-entry stage (to investigate influencing factors of subsequent investment decisions in the West Midlands). Firstly, Chapter 5 analysed the sub-question, ‘what are the determinants of EM OFDI into the UK?’ by examining the determinants of EM Greenfield FDI into the UK. Within the theoretical framework described in Figure 5 (see 3.3.3), where RBV was applied from EMs’ perspective supplemented with NIE, detailed hypotheses were developed. The first hypothesis considered ‘strategic-asset seeking’ motivation using approaches from previous studies on EM OFDI, although here, ‘strategic-asset’ referred to ‘strategic-asset level’ or ‘innovation level’ rather than specific assets. This study also proposed ‘market seeking’ and ‘institution seeking’ motivations as hypotheses by broadening the concept of ‘resource’ to ‘market’ or ‘better business environment’. The ‘market seeking’ motivation here was more about seeking opportunities to access new kinds of market which are limited at home and are relatively more abundant in the DM host. Similarly, this study developed a hypothesis of ‘institution seeking’ motivation for EM OFDI under the assumption that the institutional constraints EM firms are experiencing at home work as a push factor for EM MNEs, whilst a ‘better-developed institutional environment for market’ in the DM host may attract EM OFDI as pull factors. To test these hypotheses, this study carried out panel analysis with a panel of 10 EM FDI source countries which had invested in the UK between 2003 and 2012. The dependent variable was the number of Greenfield FDI projects from these countries to the UK, incorporating these major motivation variables as explanatory variables into a model.

The model controlled for exchange rate, the UK's EU membership, and source firms' home countries' trade experience (Ex_{it} , $UKregion_{it}$ and $Trade_{it}$ variables respectively).

The results revealed the expected sign for all the explanatory variables, implying that the motivations regarding both push and pull factors of EM home markets and the UK proposed in the hypotheses have the expected influence on EM OFDI into the UK. However, the 'market seeking motivation' hypothesis could not be supported due to its statistical insignificance. On the other hand, the results regarding control variables demonstrated a mixed picture. Only the $Trade_{it}$ variable demonstrated the expected result in terms of sign and statistical significance, whilst the coefficient of the Ex_{it} variable showed a positive sign as expected but was statistically insignificant and the result of $UKregion_{it}$ variable was statistically significant but with the opposite sign to that expected.

Secondly, chapter 6 analysed the sub-question, 'what are the influencing factors of subsequent investment decision of EM firms within the UK?' employing case analysis. This chapter firstly aimed at consolidating the findings from the panel analysis regarding entry stage determinants of Greenfield EM OFDI for the triangulation purpose; secondly, supplementing the panel analysis results with M&A data; and lastly, investigating the determinants of expansionary investment of EM firms in the UK. With a similar structure to Chapter 5, development of propositions to investigate the research question was preceded within the theoretical framework described in Figure 6 (see 3.3.3). The first set of propositions 1-1 to 1-5 were repetition of the hypotheses to supplement findings on EM Greenfield FDIs in the UK from panel analysis through triangulation of methodology. Except for institutional push factors from the home country, other propositions related to the hypotheses (*i.e.*, propositions 1-1 to 1-4) were supported by the case analysis data (questionnaire and secondary). In addition, propositions 1-6 to 1-9 included some other

possible influencing factors in the investigation based on the theoretical framework. Data analysis results regarding proposition 1-6 supported some of the control variables of the panel analysis, such as '*UKregion_{it}*' and '*Trade_{it}*' at the firm and regional level as influencing factors on EM firms' investment decision into the UK. Propositions 1-7 to 1-9 included regional factors which could not be covered by variables in the panel analysis, such as existence of home country ethnic group (1-7) or reference group (1-8) in the host region and host country government support (1-9). However, sufficient support for these propositions (1-7 to 1-9) was not found in the analysis. Instead, findings suggested an additional influencing factor: home country government policy influence (e.g. Chinese firms' case).

Case analysis was also used to analyse EM M&A investment into the West Midlands with the same set of propositions regarding entry decisions. Findings from the case analysis supplemented the analysis of the first research question regarding EM OFDI' entry decision to the UK with findings of influencing factors of EM M&A investment in the UK, which could not be addressed in the panel analysis due to data availability. For EM firms' M&A investment decision in the UK, acquired firms' own strategic-assets were the main determinant. Both market push and pull factors seemed to be influencing factors in EM firms' M&A investment decisions in the UK as well. In addition, although there is no direct evidence for institutional factors' influencing EM firms' M&A decision in the UK, some data implied that home country institutional constraints may have some effect on EM firms' foreign investment decisions.

The second set of propositions 2-1 to 2-5 considered determinants of expansionary investment at EM firms' post-entry or operational stage. Therefore, the factors considered in these propositions were related to 'building legitimacy' or 'embeddedness' issues, such as 'duration' (2-1), 'institutional or cultural distance' (2-2), home country reference group (2-3)

or ethnic group (2-4) in the host region and relationship with host local government (2-5). Findings from both groups suggested that duration of the case firms' operation and their parent companies' effort to overcome 'cultural distance' or 'liability of foreignness' had positive influence on expansionary or re-investment decisions of the case firms or the parent companies, supporting propositions 2-1 and 2-2, although the details differ between the M&A and Greenfield groups. Findings regarding the M&A group firms suggested that for both the M&A firms and their parent companies, 'independence/autonomy' of the acquired firm was an important influencing factor in their further investment decisions. It seems that allowing 'autonomy' for the acquired firms, which was originally a 'local' firm of the host region, can be a successful strategy for 'localisation', and this dynamic can be strengthened as the duration of post-acquisition operation of the acquired firms increases when the acquired firms gain more trust from the parent organisations. Findings regarding the Greenfield group firms revealed that duration of the case firms help them to build trust not only from their parent companies but also from the host region, leading to smoother operation of the firms and thus, having positive influence on firms' further investment decisions. It also seems that localisation is important for Greenfield firms as well in their overcoming 'cultural distance' or 'liability of foreignness' in a foreign host region. However, at the same time, expatriate employees' roles in these firms to bridge the subsidiaries in the host region and the parent company in home countries seems to be critical as well. Another significant factor which influenced on the Greenfield firms' expansionary investment decision was 'local government support' and 'positive business partnership' in the region. In this way, proposition 2-5 was supported by the Greenfield group data.

So far, this section has reviewed how the research has progressed in previous chapters. The following section (Section 7.2) will not only draw conclusions from the findings regarding the research questions of this thesis (Section 7.2.1 and 7.2.2) but also discuss how this study's

findings can contribute to the relevant body of knowledge (Section 7.2.3). Based on the conclusions and discussions from Section 7.2, Section 7.3 will look into possible implications of this study for theory and policy development respectively. Section 7.4 will discuss the limits found during the process of the study, which will lead to discussions on implications for future research from this study. The final section (Section 7.5) will complete this thesis with a range of concluding remarks.

7.2. Conclusions about research questions and contributions of the findings

This section aims at drawing conclusions about the results from the main analyses of the EM OFDI to DM. The analyses were conducted by checking whether the theoretical assumptions of this study were supported by the data analysis results. These theoretical assumptions were developed as relevant hypotheses and propositions within the theoretical framework which was built based on the literature review of the relevant previous studies. Table 25 summarises the research questions and hypotheses/propositions which were developed to address each research question.

Table 25. The research questions and relevant hypotheses/propositions

EM OFDI's entry decision to the UK: What are the determinants of EM OFDI into the UK?		
Determinants/influencing factors	Hypotheses (for Panel analysis)	Propositions (for case analysis)
Strategic-asset (level)	Hypothesis 1	Proposition 1-1
Market	Hypothesis 2	Proposition 1-2 (push)* & 1-3 (pull)
Institution	Hypothesis 3	Proposition 1-4 (push) & 1-5 (pull)
Others		Proposition 1-6: EM firms' previous internationalisation experience

	Proposition 1-7: existence of EM firms' home country ethnic group in the host region
	Proposition 1-8: existence of reference group in the host region
	Proposition 1-9: host government support
	Other: Home country government influence*

EM OFDI's expansionary or re-investment decision in the UK: What are the influencing factors of subsequent investment decision of EM firms within the UK? (case analysis only)

Determinants/influencing factors	Propositions
Duration	Proposition 2-1
Overcoming cultural/institutional distance	Proposition 2-2
Existence of reference group in the host region	Proposition 2-3
Existence of EM firms' home country ethnic group in the host region	Proposition 2-4
Host government support	Proposition 2-5
Others	Market expansion; Other foreign investment

Source: Author's summary

The following sections now consider the conclusions of each research question analysis firstly, regarding EM OFDI's entry FDI decision to the UK from both panel and case analysis (Section 7.2.1) and secondly, regarding EM OFDI's expansionary or re-investment decision in the UK from the case analysis (Section 7.2.2). The last sub-section, 7.2.3 will discuss the

more general level of contribution of this study to the relevant body of knowledge considering the conclusions from 7.2.1 and 7.2.2.

7.2.1. Conclusions regarding EM OFDI's entry decision to the UK

The first research question of this study was 'What are the determinants of EM OFDI into the UK?'. In order to address this question, this study carried out panel analysis with EM Greenfield data and case analysis with both Greenfield and M&A data. By employing multiple methodologies, this study could achieve both methodological triangulation for Greenfield investment data analysis and complete the investigation of this research question including both FDI types.

7.2.1.1. Conclusions regarding EM OFDI's Greenfield entry decision to the UK

Regarding EM Greenfield investment entry decisions, three hypotheses – strategic-asset seeking, market-seeking and institution-seeking motivations – were developed for panel analysis. For the methodological triangulation purpose, propositions covering these motivations were also set up within the case. Both panel and case analysis results generally supported the theoretical assumptions regarding these major motivations of EM Greenfield investment. Regarding each assumption specifically, it can be concluded that strategic-asset seeking motivation is one of the strongest determinants of EM OFDI to DM. This result also agrees with several previous studies on EM OFDI where assumptions regarding strategic-asset seeking motivation were investigated (e.g., Deng, 2007; Luo and Tung, 2007; Alon, 2010; Holtbrugge and Kreppel, 2012). However, amongst these previous studies, quantitative research, where this motivation was dealt with in a statistical model, is still very rare (e.g., Alon, 2010). This is partly because the majority of the studies on EM OFDI have been based on qualitative research. Moreover, in these studies the cases were mostly M&A

cases and the ‘strategic-asset’ EM firms seek for is mostly a ‘specific’ asset. However, this study’s panel analysis was focused on Greenfield investment. Thus, the hypothesis and variable regarding ‘strategic-asset’ seeking motivation of the panel analysis model were also tailored for EM Greenfield investment specifically. Here, ‘strategic-asset’ was rather ‘strategic-asset level’ or ‘innovation level’ of both EM home and DM host countries. This approach of considering the ‘strategic-asset’ as ‘strategic-asset level’ of the host from the panel analysis was also supported by the case analysis results by the ‘Greenfield investment’ group data (proposition 1-1; from see 6.4.3.1). Considering these discussions, it can be concluded that firstly, this study’s findings regarding EM OFDI’s ‘strategic-asset seeking motivation’ strongly confirm the findings of previous studies through both quantitative and qualitative analysis results. Secondly, this study contributes to developing understanding of EM OFDI’s ‘strategic-asset seeking motivation’ of Greenfield investment firms which was relatively under-researched compared to that of EM M&A firms. It seems that in the Greenfield investment case, the strategic-asset which EM firms search for in the DM host is the host country’s ‘strategic-asset level’ rather than specific assets.

In terms of ‘market-seeking motivation’ of Greenfield EM OFDI to DM, the coefficient of ‘market-seeking motivation’ variable from the panel analysis, was not statistically significant. However, its sign was positive as expected and the results closely agree with previous studies, even regarding the ‘statistical insignificance’ due to the properties of the particular proxy used in this study (*i.e.*, GDP per capita) (see 5.3.3.2 and 5.4.2). Regarding this matter, this study discussed the limits of the quantitative variable as a measure of this motivation as potentially not capturing the specific characteristics of EM OFDI to DM countries (see 5.4.2). However, the case analysis results supported this assumption as the findings revealed the distinctive characteristics of market-seeking motivation of EM OFDI to DMs, such as ‘intensified competition in the home country market due to radical globalisation and

liberalisation' working as a push factor. These aspects were suggested in previous studies as propositions to be investigated in future studies (e.g., Luo and Tung, 2007), and thus, this study's findings tested and further confirmed those propositions from the previous studies. Considering the discussions so far, it can be concluded that 'market-seeking motivation' seems to be a possible determinant of EM OFDI to DM as it is for 'traditional' FDI. However, to obtain a statistically significant result regarding this motivation variable in quantitative studies, a better proxy needs to be developed – as it does here – in order to reflect the special qualitative characteristics of EM OFDI to DM although it was supported by the qualitative analysis results. However, this study's attempt to develop a quantitative variable for this specific motivation of EM OFDI to DM can have implications for future studies.

Regarding 'institution seeking motivation', it can be concluded that institution seeking motivation is another important determinant of Greenfield EM OFDI to DM based on both panel and case analysis results. The coefficient of 'institution-seeking motivation variable', where both push and pull institutional factors from the home and host country were incorporated, showed statistically significant positive results as was expected. The case analysis results also supported the idea that EM firms considered the host country's well-developed institutional environment as a positive influencing factor for their entry investment decision to the UK. However, the case analysis data supporting EM home countries' institutional push factors was not found. This study's analysis results regarding this motivation have significance as the theoretical assumption of this motivation incorporates a novel approach to the institutional environment. Although several studies on EM OFDI have agreed that 'institution' matters in research regarding EM or EM OFDI (e.g., Luo and Tung, 2007; Peng *et al.*, 2008; Yamakawa *et al.*, 2008; Khanna and Palepu, 2010; see 3.4.2), the focus in these studies was on institutional constraints in EM home countries. The quantitative approach of developing institutional aspects as a variable for a statistical model

is also rare in relevant studies apart from a few studies where EM host countries' institutional constraints were included in a statistical model to measure risk levels in EM hosts (e.g. Benasek *et al.*, 2000; Bevan and Estrin, 2004; Bénassy-Quéré *et al.*, 2007; Buckley *et al.*, 2008; see 5.3.3.3). This study's theoretical assumption regarding institutions/institutional environment of both EM home country and DM host country as a major determinant, particularly regarding DM host countries' institutional pull factor of EM OFDI, was a novel approach. Therefore, both the panel and case analysis results supporting this assumption can broaden understanding regarding EM OFDI to DM, having implications for future study considering 'institutional matters' from a wider perspective.

In addition to the assumptions regarding these three major motivations, the results from both panel and case analysis suggested other factors which have influenced EM Greenfield investment entry decisions to the UK. Amongst the control variables of the panel analysis model, 'trade experience' of EM source countries appeared to have positively influenced their OFDI. This control variable was included in the model as several studies on EM OFDI suggested that EM source countries' previous experience of internationalisation through trade may encourage their OFDI (e.g., Mathews, 2006; Buckley *et al.*, 2008; Yamakawa *et al.*, 2008; Holtbrugge and Kreppel, 2012; see 5.3.3). This aspect was investigated within the case analysis as well. Here, the questions and coding categories on the case firms' previous trade and FDI experience directly addressed those of EM firms in the UK and/or Europe as well as these firms' business experience with UK firms in their own home countries. All the Greenfield firms either directly or indirectly suggested the positive influence of their parent companies' trade/FDI experience within the UK and/or European context on their entry investment decision to the UK. Therefore, based on this study's findings from both the panel and case analysis, EM source countries' bilateral and general trade experience has influence on the OFDI decision to the host. In addition, this study also has implications for future

study as the variable used for ‘EM sources’ trade experience’ in the quantitative model can be further re-specified in such a way that it shows the bilateral trade flows or stock between EM sources and DM hosts.

There are also a range of ‘regional factors’ which have influenced Greenfield EM OFDI decision to the West Midlands found within the case analysis. Initially, the presence of ‘home country ethnic group’ or ‘reference group from either home country or countries from similar cultural background’ were proposed as having a positive influence on EM OFDI decisions to the region based on the literature review of previous studies. However, there were no findings to support these propositions. Rather, ‘other regional factors’ such as infrastructure or existence of customer base, which are not particularly distinctive for EM OFDI case, influenced the EM firms’ entry decision to the region through Greenfield investment. Based on the results, it can be concluded that ‘regional factors’ influencing EM firms’ Greenfield investment location decisions at a regional level do not differ greatly from conventional ones.

Lastly, as the data of the case analysis was collected at the firm level, this study could investigate additional factors which have been suggested from previous studies on EM OFDI but which could not be included in the panel analysis, due to the level or availability of the data. The first one was that ‘EM home country government influenced EM OFDI decision’, particularly in the case of Chinese OFDI (e.g. Deng, 2004; Child and Rodrigues, 2005; Palepu *et al.*, .2005; Wei, 2010; Wang *et al.*, 2012). The analysis results showed that at least Chinese firms considered their government’s policy of encouraging FDI (e.g., ‘Go global policy’) as positively related to their FDI decision. Therefore, this study’s findings further confirm this suggestion of home country government influence from previous studies, at least with respect to the Chinese cases. The second one was that EM firms’ ‘parent companies’ global aspiration’ can encourage its OFDI, particularly to DM hosts (e.g., Mathews, 2006;

Luo and Tung, 2007). Although there were little data supporting a direct relationship between ‘parent company’s global aspiration’ and the Greenfield firms’ investment decision to the UK, histories and profiles of parent companies of Greenfield firms such as market/industry leaders in their home countries implies the possibility of a connection between a parent company’s aspiration and its radical investment decision to the DM host. Based on these discussions, it can be concluded that this study’s findings further strengthen some of the significant assumptions regarding EM OFDI proposed by previous studies.

7.2.1.2. Conclusions regarding EM OFDI’s M&A entry decision to the UK

Due to data availability, the panel analysis was limited to Greenfield EM OFDI. Therefore, in addition to the methodological triangulation purpose, the case analysis included ‘M&A EM OFDI’ data in order to supplement the data limitation in the panel analysis. Theoretical assumptions and propositions regarding EM firms’ M&A investment decisions in the UK were the same as those for Greenfield investment. Thus, the results can provide implications regarding whether determinants/influencing factors of EM firms’ entry investment decisions are identical or different depending on the mode of investment. The findings and interpretations regarding them were introduced in detail in Section 6.4.3.1, and therefore, this section will focus on whether the conclusions regarding M&A data analysis results differ from those of the Greenfield data analysis.

Based on the findings, ‘strategic-asset’ seeking motivation of EM OFDI was supported by the M&A data as well. The difference between the results from M&A and Greenfield data was that the ‘strategic-asset’ the M&A firms sought in the UK was a ‘specific asset’ such as a well-established distribution network or technology (see 6.4.3.1). This result was further supported by the findings regarding a leading position in the industry and well-established

history of the case firms, the UK companies acquired by the EM parent companies. In fact, this result confirms what previous studies on EM OFDI actually assumed regarding this motivation (e.g., Deng, 2004; 2007; Gammeltoft, 2008; Holtbrugge and Kreppel, 2012). Therefore, it can be concluded that the analysis results of M&A data further confirmed the conventional ‘strategic-asset seeking motivation’ of EM OFDI suggested by previous studies.

Secondly, ‘market-seeking motivation’ is also supported by the M&A data as well. In fact, there were more findings from the M&A group data which supported the distinctive characteristics of market-seeking motivation of EM OFDI to DM, including pull factors from the host such as ‘niche market of customers of sunset industries’, or producing some ‘defunct designs of the DM companies’ in the host as well as push factors from EM home countries such as ‘intensified competition at home market’. Therefore, the analysis results of M&A data also strengthen previous studies’ assumptions regarding this motivation. It can also be concluded that ‘market-seeking motivation’ is a common determinant/influencing factor for EM OFDI to DM regardless of the investment type together with ‘strategic-asset seeking’ motivation.

However, compared with Greenfield investment, the M&A data did not support the propositions regarding ‘institution-seeking motivation’, ‘previous trade/FDI experience with/in the UK/European countries’ and ‘regional factors’. Therefore, it can be concluded that in EM companies’ M&A investment decisions into a DM host, the target firm and factors directly related to the target firms, such as ‘strategic-asset’ and ‘market potential’, are more important than the host country factors such as institutions or regional factors.

7.2.2. Conclusions regarding EM OFDI's expansionary or re-investment decision in the UK

The second research question of this study was 'What are the determinants of subsequent investment decision of EM firms within the UK?', inquiring how the entry stage determinants/influencing factors of EM OFDI and other factors the EM firms face at the operational stage in the host country affect their further investment decisions. To investigate this question, this study carried out a case analysis at the firm level to address this question for both Greenfield and M&A FDI type.

Within the case analysis, this study set up several propositions to address the factors which help embeddedness by reducing 'liability of foreignness' and building 'legitimacy' of the firm in the host. This was based upon a fundamental assumption that the factors affecting EM firms' embeddedness in the host will influence the outcome of the initial investment and in turn, will have an impact on their re- or expansionary investment decision (Nguyen, 2016). The propositions considered 'duration of the investment' of EM firms in the West Midlands (proposition 2-1), the 'strategy of reducing cultural/institutional distance between source firms and the host' (proposition 2-2), 'having home country ethnic community (proposition 2-3) or reference group from either home country or other similar cultural background (proposition 2-4) in the host as a buffer' and the importance of 'host regional government or other relevant business network support' (proposition 2-5).

The results supported the proposition regarding 'duration of operation' (proposition 2-1), 'strategy to reduce cultural/institutional distance' (proposition 2-2) and the proposition regarding 'supports from the host government' (proposition 2-5). The first proposition on 'duration of operation' was developed under the assumption that as time goes by the subsidiaries' experience and knowledge of the foreign host is likely to increase and therefore, the 'liability of foreignness' of these subsidiaries tends to decrease whilst 'embeddedness' of

the firms becomes strengthened (Delios and Beamish, 2001 cited in Nguyen, 2016). The findings from both groups support this assumption. Both interview firms saw the relationship with their parent companies develop and the parent companies' trust in them has also increased as time has gone by. This affected a huge capital investment plan for Firm 1A, an M&A firm, as the trust from its parent company has grown throughout its operation under the parent company's ownership. Firm 3A, a Greenfield firm, saw its business and operation become "smoother" as staff's experience grew and communication amongst them and with the parent company has improved as time has gone by. Other secondary case firms 1L and 2A from the Greenfield group also saw their embeddedness develop as the duration of their operation increased. In this way, duration of operation has had positive influence on the Greenfield firms' further investment decisions as well. Some studies have suggested that duration of operation can have a positive influence on firms' re-investment decision in a foreign host because MNEs' subsidiaries can develop "experience-based capabilities, refined routines and the ability to adapt" in the host as time goes by (Henderson, 1999; Baum and Shipilov, 2006 cited in Nguyen, 2016, p.47). Therefore, this study further confirms these previous studies.

The second proposition (2-2) was developed by considering several examples of parent companies' strategies to mediate the negative effects of institutional/cultural distance to reduce 'liability of foreignness'. What this proposition assumed was that this kind of strategy will encourage EM parent companies' embeddedness in the host country and will in turn lead to their positive subsequent investment decisions. In terms of Greenfield firms, their parent companies tried to achieve 'localisation' by hiring local employees even at the managerial level, or employees of home country nationality who have been 'localised' through study and living in the host, who can thus play a significant role in 'bridging' the foreign subsidiary and the parent company at home. This is closely in line with the analysis results of the M&A data

of this study's case analysis. Based on the analysis of 'maximum contrast' cases, it seems that the autonomy of the acquired host firm was critical in localisation of the subsidiary and in turn, the parent companies' decisions on further investment. The findings from M&A data analysis showed that EM parent companies, which allowed their acquired firms autonomy, decided to maintain their investment whilst the acquired firm over which the parent company tried to exert more control in the operation (e.g., using parent company's brand name) had returned to its original UK ownership. In fact, this exact approach (*i.e.*, partnering approach) has been suggested as one possible strategy for the acquirer to mediate the negative effect of institutional/cultural distance at the post-acquisition stage by some previous studies (e.g., Tata motor's post-acquisition strategy after acquiring Jaguar and Land Rover in the West Midlands) (Kale, *et al.*, 2009; Zheng *et al.*, 2014; see 6.2.3). Luo and Tung (2007) also found that the Chinese companies Haier and Lenovo also used 'localised senior management team' rather than expatriates from China, although this fact was an observation rather than theoretical assumption explored in their study. Therefore, this study's findings strongly confirm these results from previous studies.

Another example of the strategy of MNE to overcome cultural/institutional distance suggested in previous studies is the thesis of 'cross-vergence' or 'convergence', which focuses on 'strategic changes' in acquired firms' culture, either to the parent company's or to a new kind of culture incorporating both the parent company's home culture and the host country's (Shenkar, 2001; Sarala and Vaara, 2010; see 6.2.3). Haier's and Lenovo's investment in the US was quoted in other studies also as examples of 'cross-vergence' or 'convergence' strategy (e.g., Shenkar, 2001; He and Lyles, 2008; Sarala and Vaara, 2010). However, the findings from this study regarding this matter suggest that EM parent companies' keeping their investment 'local' was one of the most effective strategies for reducing the 'cultural/institutional distance' in the UK. As the examples of the EM firms'

strategy for overcoming ‘cultural/institutional distance’ in different DM hosts vary greatly, future studies may include more than one DM host in the research scope for ‘comparative study’ regarding strategic responses of EM firms in the DM host to deal with ‘cultural/institutional distance’ issues.

Lastly, the proposition 2-5 regarding the influence of local government support at the operational stage on EM firms’ embeddedness and their further investment decisions in the host was supported by the Greenfield investment data. A Greenfield group firm, 1L regarded the support from the host government at both the national (e.g., UKTI) and regional (e.g., Business Birmingham) level as helpful for them to ‘feel at home’ in the UK. Therefore, it can be concluded that for the EM firms’ Greenfield investment, support and positive partnership from the host government or other relevant networks, at both the regional and national level, influences EM firms’ embeddedness and their further investment decisions. Although there was no data from the M&A group to support the proposition 2-5, considering that this group’s EM parent companies’ successful strategy for embeddedness was maintaining the acquired firms of the host country as independent firms, it may be the case that these EM parent companies used the established network of acquired firms as a substitute for developing a new relationship with the host government or similar partnerships to build legitimacy in the host, similar to the Greenfield firms.

In conclusion, although not all of the propositions were supported by the findings, the fundamental assumption behind the propositions for the second research question regarding the influence of ‘embeddedness’, ‘liability of foreignness’ and ‘building legitimacy’ on EM firms’ further investment decisions in the host at ‘post-investment’ stage remained true. Both the M&A and the Greenfield firms regarded ‘being local’ and ‘feeling at home’ as important to minimise the liability of foreignness and for their embeddedness, although the details regarding ‘how’ differed according to type of investment.

7.2.3. Contribution to the body of knowledge/understanding in IB and FDI

Contribution to the body of knowledge comes from the originality of the study and a study's originality can arise in various ways. Smith (2015, p.102) argues that 'originality of the study' can be defined as follows:

- Demonstration or re-interpretation of an existing theory/methodology and data; or
- Finding new ways of analysing or applying an existing body of knowledge, or
- Proposing a new theory or model, or
- Some deductive work – for example, a new mathematical proof or new arguments

Taking these arguments into account, this study develops its originality in three ways:

- 1) By extending and elaborating a relatively new and unexplored area through its research theme;
- 2) Through “re-interpretation of an existing theory/methodology and data” in its theoretical framework development and
- 3) By qualifying some existing works and by applying a sophisticated methodology to a new area.

Firstly, this study's originality can be found in its overarching theme. EM OFDI to DM is still a relatively 'unreached' subject in IB or FDI studies. Although studies on EM OFDI can be found as early as the late 1970s (e.g., Lecraw, 1977), this so-called first wave of EM OFDI was only marginal in its size and limited in its host selection within a certain region (Latin America); subsequently, this phenomenon has evolved greatly from what these studies found (Gammeltoft, 2008; Narula and Nguyen, 2011). It was the 1980-90s when EM OFDI started

demonstrating significance in its size and trend (e.g., the scope of location and motivation), and therefore, studies which pay attention to their distinctive behaviour from “long-established...(DM)...competitors” only were produced from the late 2000s onwards (e.g., Mathews, 2006). Amongst them, studies on EM OFDI to DM are even fewer. Although there are a few incorporating some DM countries as a part of the host country sample in their analysis of EM FDI source (e.g., Child and Rodrigues, 2005; Luo and Tung, 2007; Alon, 2010), their focus lies in the EM source country’s behaviour in general (e.g., including both in EM and DM host) rather than the specific issues of EM OFDI to DM. The choice of sample in many of these studies is also limited. Most choose a few large EM source countries (all of the example studies above are on China) and the US for DM host, whilst studies on EM OFDI in European DM host are hardly to be found apart from a few surveys (e.g., CEPII-CIREM). This research, therefore, is one of the first studies to focus solely on the subject of EM OFDI to DM within a European DM host context, to which a growing number of EM OFDI are heading (e.g., Ernst and Young 2011; 2012; 2013), and also incorporating a wide range of EM countries together as a source sample.

A further contribution of this study can be found in that this study elaborates these relatively unexplored areas in FDI studies, *i.e.* EM OFDI to DM, by including expansionary as well as entry level FDI. In general FDI determinants studies either do not distinguish between expansionary and entry investments or only cover the initial entry investments. This study also investigated ‘EM Greenfield investment’ in depth with both quantitative and qualitative analyses. In terms of international expansion of EM firms, there have been a substantial number of studies on exporting, Joint Venture or other strategic alliances, and more recently the number of studies on M&A has also been growing (Gubbi *et al.*, 2010). However, ‘Greenfield investment’ as a mode of internationalisation of EM firms is an understudied theme compared to other modes of entry. Therefore, this study’s originality can be achieved

through extending and elaborating these relatively unexplored areas in FDI studies in general and EM FDI studies in particular.

Secondly, this study's originality can be found in its 'fresh theoretical interpretations' of an existing theory. Traditional FDI theories fundamentally assume that firms are involved in FDI for the purpose of exploiting some 'advantages' which they hold, and therefore, the major gap in these theories is found in explaining 'unconventional FDIs' where this 'advantage' of the source firms is not available, such as in the EM OFDI case (Moon and Roehl, 2001). Particularly, in considering the motivation or determinant of FDI, traditional theories fail to answer the reason for the FDI decision other than in the FSA exploitation case (*ibid*). Therefore, this thesis' development of a theoretical explanation of motivations or determinations for 'unconventional FDIs' contributes to increasing understanding of the FDI process (Cuervo-Cazzura, 2012). Considering this aspect further, some studies on EM OFDI suggested a new theoretical framework such as LLL (Mathews, 2006) or 'Springboard perspective' (Luo and Tung, 2007) by applying 'adjusted RBV' from the perspective of EM firms, which are latecomers in the FDI market. These theoretical frameworks, focusing on EM firms' 'lack of FSA', try to understand EM OFDI motivation from the perspective of 'resource seeking' (pull factors) rather than reflecting the holistic view of EM OFDI where not only pull factors (resource seeking motivation) but also push factors (disadvantages at EM home market) play a significant role. Whilst applying the approach of this adapted RBV framework from the EMs' (latecomers') perspective, this study further develops a theoretical framework wherein various disadvantages of EM firms and their home markets work as a push factor of EM OFDI by applying a wide range of RBV studies and theories, such as 'imbalance theory' (Moon and Roehl, 2001) and Grant (1991)'s resource-based approach for strategy analysis. In this way, the theoretical framework based on the adapted RBV from EMs' perspective suggested by previous studies is further developed as a more complete

framework for understanding the determinants of EM OFDI fully by incorporating both push and pull factors.

Another contribution from this study in terms of theoretical framework comes from its ‘empiricism’. Although the LLL framework or Springboard perspective have provided a significant reference for many studies on EM OFDI, there have not been many empirical studies undertaken to develop and test hypotheses or propositions to explore the theoretical assumption developed within these frameworks. This study developed hypotheses within a theoretical framework which includes both EM firms’ ‘resource seeking’ motivations as pull factors and their own and home markets’ ‘disadvantages’ as push factors of FDI determinants. In addition, the empirical results supported the expected directions of these ‘push factors’ as well as the conventional ‘pull factors’ of the host with the majority of them being statistically significant.

Moreover, by applying institutional theory to the RBV framework, this study also achieves ‘fresh interpretation of institutional theory’. Although there have already been some studies which combine institutional theory and RBV in their framework (e.g., Oliver, 1991; 1997; Peng *et al.*, 2008), all of these studies are mainly firm strategy studies and therefore, use NOI and traditional RBV (see 3.3.2.3). Thus, this study’s theoretical assumption regarding institutions as push and pull factors of EM OFDI into DM based on NIE at national level differs greatly from these previous studies’ institutional theory applications. In addition, this study’s attempt to combine institutional theory to the ‘adapted RBV’ from EMs’ perspective is an innovative approach. Detailed discussions regarding how this study differs from previous studies in terms of institutional theory application and combining it with RBV can be found in Section 3.3.2.3. In this way, this study can achieve its originality by “fresh theoretical interpretations” of institutional theory (e.g., NIE application; combining NIE and adapted RBV framework) specifically developed for EM OFDI analysis.

Lastly, this study's originality can also be found in qualifying some existing works and by applying a sophisticated methodology to a new area. Due to the relatively short history of EM OFDI activity, there is a dearth of empirical studies on EM OFDI in general and EM OFDI into DM host countries in particular, with most of the studies being based on well-known cases, summarising common characteristics or suggesting propositions/models to be tested in future studies rather than conducting primary research (e.g., Bertoni *et al.*, 2008; Luo and Tung, 2007; Yamakawa *et al.*, 2008). Empirical quantitative studies, particularly ones using more sophisticated quantitative methods such as longitudinal or Panel analysis on this theme remain few (e.g., Child and Rodrigues, 2005; Alon, 2010). Moreover, as there is little primary research on this theme at present, a more complex methodology such as triangulation approach has yet to be used in this area. Therefore, this study achieves its originality by 1) providing empirical support for the further understanding of this relatively unreached but increasingly significant phenomenon and 2) confirming and strengthening some suggestions from previous studies remaining to be tested through its empirical analysis results and findings. Detailed discussions on this matter have been introduced in 'Findings and discussions on the analysis results' sections (5.4.2 and 6.4.3) and conclusions sections above (7.2.1 and 7.2.2). This manner of contribution from the study has further significance when considering the sample host of this thesis, the UK, as there are even fewer studies on EM OFDI to European DM and even less on EM OFDI to the UK.

7.3. Implications

In addition to the contributions discussed above, this section considers further implications of this study for theory and policy development in each of the following sub-sections respectively.

7.3.1. Implications for theory development

The first implication for theory development from this study comes from its ‘fresh theoretical interpretation’ of an existing theory as discussed in the previous section (7.2.3). This study’s theoretical framework has been specifically developed for EM OFDI to DMs incorporating both push (disadvantages of EM firms such as lack of FSA and home country constraints) and pull factors (advantages of DM hosts which EM firms search for); applying institutional theory with a novel approach brings implications for future studies in the following ways:

- 1) For future studies on ‘unconventional types of FDI’ with ‘distinguished’ motivations including ‘EM OFDI’ by extending the scope of the theoretical framework to include not only ‘advantages’ but also ‘disadvantages’ firms may face in their FDI decisions;
- 2) For developing a more holistic theoretical model of EM FDI study by bridging pre- and post-investment stages.

In addition to this study’s contribution through its ‘fresh interpretation’ of the theory and adjusted analytical framework combining theories in an innovative way for the immediate discipline area (*i.e.*, FDI and IB area), this sub-section also aims at looking into the further theoretical implications of this study for the wider body of knowledge (Perry, 1998, p.28). The major implication of this study for further theory development can arise from its distinctive perspective in the application of institutional theory in the theoretical framework. In incorporating institutional theory into the adapted RBV framework from an EM perspective, institutions were also assumed to be ‘resources’ by extending the scope of the ‘resource’ concept. Based on this fundamental assumption, the ‘institution seeking variable’ was developed in such a way that push factors (institutional constraints at EM home) with a negative sign and pull factor (advanced institutional arrangement in DM host) with a positive

sign, were incorporated into one variable. As a result, the variable took the same form as those representing ‘institutional difference’ or ‘institutional distance’.

The concept of ‘difference between host and home’ has been applied to several IB and FDI studies by being considered as ‘distance’. Beginning with ‘geographic distance’, the distance concept was extended to a ‘distance of qualitative characteristics’ such as the Uppsala model’s “psychic distance” and Hofstede (1980)’s ‘cultural distance’. Particularly, Hofstede (1980) pioneered attempting to measure his cultural distance concept where four aspects of culture as indicators for measurement – power distance, uncertainty avoidance, individualism and masculinity – were introduced (Berry *et al.*, 2010). This cultural distance concept later developed to incorporate more dimensions (currently 6 dimensions) whilst other studies suggested an institutional distance concept to cover a wider range of socio-economic institutions by which countries differ to supplement the Hofstede variable’s drawbacks in the limited cultural dimensions this variable is able to measure (e.g. McSweeney, 2002; Berry *et al.*, 2010; Sarala and Vaara, 2010).

These previous studies where this ‘distance concept’ was applied usually assumed the negative influence of difference between home and host, as the terminology implies, by emphasising the ‘costs arising from unfamiliarity with a host market’s institutional profile’ to MNEs (Kostova, 1999; Kostova and Zaheer, 1999; Goldstein, 2007; Li and Yao, 2010). However, this study’s panel analysis results in relation to the institution-seeking variable, which represented one of the motivations for EM firms’ entry investment decision to the UK, demonstrated a direction of influence opposite to these previous studies’ intuition. As discussed in Section 5.4.2, the institution-seeking variable of this study represents the institutional ‘advantage’ of the UK and ‘disadvantage’ of EM source countries incorporated together, rather than the effect of ‘institutional distance’ *per se*. However, the positive effect of the discrepancy between the institutional conditions of the UK and EM home countries at

the entry stage can provide a new implication for studies where ‘institutional difference’ is considered in their theoretical framework. In fact, using the concept of ‘cultural distance’, Dunning (1988) suggested that a large difference between home and host markets can encourage FDI through which firms can overcome transactional and market failure. Parkhe (1991) also suggested the possibility of the positive effects of the ‘cultural difference’ between home and host country on MNEs’ FDI decisions at the pre-investment stage because this difference may be complementary and synergetic at the strategic phase (Shenkar, 2001). Shenkar (2001), referring to Parkhe’s (1991) study, argued that the effect of ‘difference’ is non-linear at different phases of a firm’s investment, implying that it is not always negative for MNEs. In addition, looking at the ‘radical’ locational choice of EM MNEs in the case of EM OFDI to DM host countries, Cuervo-Cazzura (2012) suggested that the analysis of EM OFDI can help “separate psychic distance from market attractiveness in the selection of countries” (p.158). Therefore, this study’s analysis results of the institution-seeking variable provide empirical support for these suggestions that institutional difference between home and host is not always negatively related to FDI decisions in some cases (e.g., EM OFDI to DM case), whilst also providing implications for theoretical development regarding the non-linear effect of the institutional difference on FDI at different phases of said firm’s investment.

7.3.2. Policy implication

In addition to the academic contribution, this study also provides a range of policy implications from the host side perspective. First and foremost, understanding the determinants of EM OFDI will help the host governments to set up and implement appropriate policies to attract FDI from EMs, an increasingly important source of OFDI. Based on the data from European Investment Monitor on IFDI projects to Europe, although

the UK has maintained a leading position as a host amongst Western European countries, its popularity is being threatened by Germany (Ernst and Young, 2011; 2012; 2013; see 2.2). Moreover, the data also revealed that FDI projects from BRIC countries to Europe have been growing over the last decade whilst their most popular destination amongst Western European countries has been Germany (*ibid*). Therefore, this study, which has explored the determinants/influencing factors of EM OFDI to the DM, could provide implications for UK policies to attract investment from these increasingly significant FDI source countries and to secure its leading position amongst European countries.

Looking at the details, both the panel and case analysis strongly suggested that one of the major determinants of EM FDI into the UK is the ‘strategic-seeking’ motivation of EM firms. Although the M&A firms showed that their EM parent companies targeted ‘specific assets’, the Greenfield firms seemed to be attracted by ‘strategic-asset level’ or ‘innovation level’ of the UK. Following the Global competitiveness reports from the World Economic Forum (WEF) for recent years (2002-2014), this aspect has been one of the most significant strengths of the UK and has contributed to the UK’s ‘Global competitiveness’, which has ranked in the top-ten (see 5.4.2) and this innate competitiveness of the UK seems to have a strong positive effect on EM OFDI into the UK based on this study’s analysis results. However, at the same time, the most recent WEF report (2014) recognised that, compared to the UK’s quality and competitiveness in the Higher Education and other technology/research sectors and their collaboration with industry, its competitiveness in its early education system and mathematics/science education is beginning to lag behind that of its competitors with the former in the 23rd and the latter, the 63rd in rank respectively. Therefore, the UK government will need to address these deficiencies areas which will be “crucial to continue fostering innovation in the country” in order to maintain its competitiveness in ‘strategic-asset’ and

‘innovation’ level, which seems to be one of the major attractions for EM investors (World Economic Forum, 2014, p.22).

Another policy implication point comes from this study’s analysis with regard to the UK within the EU (or Europe) context. In the panel analysis of this study, a control variable representing the relationship between the UK and European market (*i.e.*, $UKregion_{it}$) was developed based on previous studies’ assumption of the positive influence of ‘the host country’s membership of a free-trade area or other similar economic block’ on IFDI to the host. In addition, the case analysis results suggested that EM firms coming into the UK consider the fact that the UK is part of the EU as positive as it implies the potential of an extended market. Nonetheless, this assumption and the case analysis results were contradictory to the panel analysis results of the $UKregion_{it}$ variable, the proxy of the UK’s involvement in EU market, which demonstrated a statistically significant negative sign. This study explained this matter as it may be the case that UK’s intensive involvement in EU market, which has been stressed in recent years, was regarded as risky thus having negative influence on EM source countries’ investment decision into the UK. Regarding this aspect, the attractiveness survey results from Ernst and Young suggested that “the UK’s status as an influential member of the EU but outside the euro (zone)” was regarded as attractive to the investors (Ernst and Young, 2012, p.30; Ernst and Young, 2013; see 5.4.2). These results and other supportive data can provide significant implications for the UK government’s policy regarding its positioning in EU market, particularly regarding the Conservative government’s recent pledge to re-negotiate its relationship with the EU. It seems that foreign investors consider both ‘the UK’s being influential member of the EU’ and ‘its currency being independent from Euro’ as key to the UK’s attractiveness as a host country. Therefore, the UK government may need to re-think the matter of leaving the EU whilst maintaining a certain degree of independence from the stressed Euro currency. In fact, in a recent interview

with local media a Chinese firm, which has invested in Birmingham, clearly emphasised “the vital importance” of the UK’s being a part of the EU, a single market, and forecasted that it will remain an important issue for other potential Chinese investors in the UK as well (Loftus, 2014).

Furthermore, this study’s findings on the influencing factors of EM firms’ expansionary or re-investment decisions can contribute to the policy maker’s understanding of how to retain investment from EM source countries for the longer term as well as attract them. Based on the analysis of this study, the factors which influence the embeddedness of the EM source firms in the UK in turn lead these firms’ expansionary or re-investment. As discussed in Section 6.2.3, the embeddedness process of a firm in a certain territory is often linked to high sunk costs and therefore, will likely lead to the firm’s long-term commitment (MacKinnon and Phelps, 2001). In this sense, a firm’s embeddedness brings a great benefit not only to the firm but also to the host region or country. In fact, Ernst and Young (2011, p.11) reported that “more than 50% of employment generated in the UK from FDI is from companies which have already established a base in the UK and are either expanding or co-locating further investment at an existing site”. At a regional level also, several EM firms which have invested in the West Midlands region have increased employment in the region through expansionary investment (e.g., Jaguar Land Rover, acquired by an Indian firm, announced its plan to recruit around 500 new staff in 2011 and around 200 apprentices in 2013 for their new facilities) (Simpson, 2011; Waddington-Cov, 2014).

Amongst the factors which influence the embeddedness of the EM firms in the UK, support from ‘host government’ and other relevant business networks are critical for Greenfield case firms’ further investment decisions. The case analysis pointed to the importance of both national and regional levels of bodies (e.g., UKTI and Business Birmingham), and their efforts in building up a good ‘relationship’ with the EM firms by introducing them to the

local business network and other business opportunities (see 6.4.3). This finding provides a direct reference for policy development related to both FDI attraction and retention to the UK government, particularly at the regional level considering the immediate context where investor firms operate.

Finally, this study's sample region brings further significance to the policy implications. One critical issue regarding the regional distribution of UK IFDI is the huge concentration of projects in London and the South East region. As can be seen in Table 4 and Table 5 in Section 2.3, the South East region and London alone have shared almost half of the IFDI projects into the UK in 2011 and 2012. In this context, selecting a sample region other than these regions and investigating the determinants or influencing factors of IFDI into the region will help other regional decision makers to develop appropriate policies to attract more IFDI into their regions. In this way, the share of distribution may become more equal. Moreover, the West Midlands region has faced relatively higher unemployment rate compared with other regions' (see Appendix 6 table where the unemployment rates of the West Midlands have been increasing and it was the only one with a 2-digit number in 2009). Considering the implication of the study for the host government discussed above, the usefulness of this study's analysis results in terms of policy implication may well be greater for the West Midlands than for other regions.

7.4. Limitations of the study and suggestions for future research

This study's limitations mainly come from 'data availability'. The first one was that there was not sufficient M&A data on the dependent variable covering the whole periods of the study in panel analysis. Although major data sets for M&A investment projects such as 'UNCTAD M&A tracker database' and 'Ernst & Young data base' exist, the data covered

only more recent time periods with the former covering from 2008 to 2011 and the latter only from 2010 to 2012. To solve this problem, this study focused on only Greenfield FDI data (see 5.4 for more discussions and justifications of this decision), so the EM source sample in the panel analysis was rather small. A similar challenge occurred during the case analysis study due to the difficulties in contacting and accessing elite interviewees for data collection (Welch *et al.*, 2002) as described in Section 6.3.1. Due to this challenge, this study needed to use secondary data analysis as well.

Another possible limitation is the ability to generalise from the case analysis, which is a common issue for research with case analyses (Perry 1998; Yin, 2010). However, the criticisms of case analysis' lack of 'generalisability' are often based on an incorrect understanding of generalisation of case analysis or qualitative analysis results. Yin (2012) argued that generalisation of case analysis results is 'analytical generalisation', which is not to achieve "the status of proof in geometry" but to generalise to other situations (p.10). The 'theory' can be just "a series of hypotheses or even a single hypothesis", which can be used in building new case analyses "to produce findings related to the same theoretical propositions" (*ibid*). In this way, this study's case analysis results and propositions, both supported and suggested by the data, can be generalised to another similar situation regarding EM OFDI to DM cases.

However, the limitations and challenges this study faced at the same time provide implications for this study to be further developed. The subject of this study, EM OFDI into DM, is an increasingly important phenomenon and thus, there is potential to develop this study further when incorporating a wider variety of data which this study could not include at this stage such as M&A or Joint Venture data rather than just Greenfield IFDI. In addition, more data from additional EM source countries for panel analysis could be used. More data may improve some panel analysis results such as the collinearity issue (e.g., VIF score of the

model was rather high; see 5.4.1 for details). In addition, a larger data set may bring some additional information which can improve some proxies of variables in the model (e.g., $Trade_{it}$ variable). Moreover, if M&A data from the same source countries as the ones of the Greenfield data set are included into the panel analysis, this study's approach at methodological triangulation can be fully completed.

Similarly, within the case analysis, if more primary data from interviews were to be included, the 'cases' could be analysed from a more diversified perspective. In addition, considering that this study included only one DM host country, the UK, and one host region, the West Midlands, this study can be further developed to 'comparative studies' by including other DM host countries, particularly European ones and/or other UK regions as host regions. Although the 'generalisation issue' is common for case analyses, this issue is often suggested as a 'development point to future study' (Perry 1998; Yin, 2012). Thus these kinds of 'comparative studies' can achieve 'generalisation' of this study's findings as well.

As EM OFDI has changed dynamically from the first wave to now, this study may be developed into a future study which explores the dynamism of the OFDI from the current EM source countries regarding the manner in which their motivations and behaviour of FDI change as their economic development status and FDI experience changes. These future studies can contribute to the body of previous studies on EM OFDI which have explored historical development of EM OFDI. As Gammeltoft *et al.* (2012, p.180) noted, "firms do not necessarily just adapt to their environment" but may also shape it. Institution theory application in Business Studies in general has been with the approach of looking at the institutional structure as a constraint to the firms' strategic decisions. However, the theory, particularly NIE, also assumes that institutions can change over time, although the process may be lengthy and uncertain (*i.e.*, not necessarily as planned) due to the 'built-in rigidity' of

institutions. Therefore, future studies can develop this study's institutional theory application in FDI studies which focus on EMs' distinctive institutional context by examining whether these relatively new players (EM MNEs) may have some influence on changes in the rules (institutions) in the FDI market.

7.5. Concluding remarks

This final chapter has reviewed the whole thesis, drawing conclusions and proposing implications for theory development and policies. The introduction section summarised the background of this thesis' research question, theoretical background, data collection and analysis. The conclusions of findings made regarding EM firms' entry and re-/expansionary investment decisions into/in the UK follow the research questions. The study concluded that the majority of this study's theoretical assumptions on EM firms' investment into/in the UK were supported by the findings. As those assumptions were made with reference to the previous relevant studies in FDI or IB areas, the findings and conclusions of this study also confirmed these previous studies or provided further expansion of these previous studies. In this way, this study can contribute to the body of knowledge of FDI and IB.

The contribution from this study comes not only from confirmation of previous studies' suggestions but also from firstly, extending the understanding of the relatively under-researched FDI subject, EM OFDI to DM; secondly, from re-interpretation and re-application of the adapted RBV framework from EMs perspective and institutional theory; and lastly, from applying a sophisticated methodology such as methodological triangulation and panel analysis to a new area. Moreover, the implication is further extended to broaden understanding of the influence of 'institutional difference' on FDI with the possibility of its

positive effect at different stages of MNEs' investment and to policy development for host regional and national government.

At the same time, this study has also noted its limitations, particularly arising from the lack of data. However, this study has recognised the possible problems and justified alternative selections to deal with the problems in the relevant sections. In addition, related to these issues, this study has also provided the potential to further develop the analysis with supplementary data. By including more data on various EM source countries over a wider range of time period in the panel data, the panel analysis can be developed in a more sophisticated way. In addition, by including more DM host countries and regions into the analysis, this study can be developed into a comparative analysis between regions and countries.

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Appendix 1

The original results of the correlation matrix of independent variables (Table 8; 5.4.1)

```
. correlate Strat Market Inst Ex UKregion Trade
(obs=100)
```

	Strat	Market	Inst	Ex	UKregion	Trade
Strat	1.0000					
Market	-0.1254	1.0000				
Inst	-0.1959	0.5538	1.0000			
Ex	-0.0798	0.2284	0.2656	1.0000		
UKregion	-0.3258	-0.1041	0.1542	0.0525	1.0000	
Trade	-0.0319	-0.3392	-0.4378	-0.2312	-0.0310	1.0000

The original results of the VIF scores of the independent variables (Table 9; 5.4.1.)

```
. estat vif
```

Variable	VIF	1/VIF
id2		
2	3.51	0.285241
3	19.62	0.050969
4	18.62	0.053717
5	27.37	0.036539
6	11.02	0.090716
7	3.48	0.286955
8	2.41	0.414346
9	25.32	0.039496
10	8.50	0.117674
Strat	1.51	0.661728
Market	12.22	0.081817
Inst	5.94	0.168236
Ex	21.37	0.046803
UKregion	1.62	0.616155
Trade	26.58	0.037619
Mean VIF	12.61	

The original results of the correlation matrix between coefficients (Table 10; 5.4.1)

. vce, corr

Correlation matrix of coefficients of xtreg model

e(V)	Strat	Market	Inst	Ex	UKregion	Trade	_cons
Strat	1.0000						
Market	0.2831	1.0000					
Inst	0.1600	-0.3471	1.0000				
Ex	0.1622	-0.2268	-0.0087	1.0000			
UKregion	0.3310	0.4874	-0.3328	-0.1912	1.0000		
Trade	0.1104	-0.2623	0.0755	0.0827	0.0473	1.0000	
_cons	-0.9760	-0.3605	-0.1513	-0.1553	-0.4588	-0.2183	1.0000

Appendix 2

The original results of the determinants of Greenfield EM OFDIs into the UK (Table 12; 5.4.1)

```
. xtreg project Strat Market Inst Ex UKregion Trade, fe
```

```
Fixed-effects (within) regression               Number of obs   =       100
Group variable: id2                           Number of groups =        10

R-sq:  within = 0.2444                        Obs per group:  min =        10
          between = 0.0162                      avg =       10.0
          overall = 0.0010                      max =        10

                                         F(6,84)         =        4.53
corr(u_i, Xb)  = -0.7430                     Prob > F         =       0.0005
```

project	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Strat	33.1427	15.38579	2.15	0.034	2.546369	63.73902
Market	.013658	.0154352	0.88	0.379	-.0170366	.0443526
Inst	.3882487	.175908	2.21	0.030	.0384363	.738061
Ex	.0351655	.1014914	0.35	0.730	-.1666613	.2369922
UKregion	-.3565763	.2819868	-1.26	0.210	-.9173379	.2041854
Trade	.1702009	.0535285	3.18	0.002	.0637536	.2766481
_cons	-72.70992	32.22312	-2.26	0.027	-136.7891	-8.630714
sigma_u	10.262014					
sigma_e	5.1360628					
rho	.79968467	(fraction of variance due to u_i)				

```
F test that all u_i=0:      F(9, 84) =      11.33      Prob > F = 0.0000
```

The original results of the determinants of Greenfield EM OFDIs into the UK, logarithm model (Table 13; 5.4.1)

. xtreg lnproject2 Strat Market Inst Ex UKregion Trade, fe

Fixed-effects (within) regression	Number of obs	=	100
Group variable: id2	Number of groups	=	10
R-sq: within = 0.2812	Obs per group: min	=	10
between = 0.0256	avg	=	10.0
overall = 0.0017	max	=	10
	F(6,84)	=	5.48
corr(u_i, Xb) = -0.6542	Prob > F	=	0.0001

lnproject2	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Strat	3.726316	1.71579	2.17	0.033	.3142788	7.138353
Market	.0014774	.0017213	0.86	0.393	-.0019456	.0049004
Inst	.034331	.0196169	1.75	0.084	-.0046793	.0733413
Ex	.0037662	.0113181	0.33	0.740	-.0187411	.0262735
UKregion	-.080345	.0314466	-2.55	0.012	-.14288	-.0178101
Trade	.0161155	.0059694	2.70	0.008	.0042448	.0279863
_cons	-6.241427	3.593453	-1.74	0.086	-13.3874	.9045483
sigma_u	1.1285096					
sigma_e	.57276273					
rho	.79516796	(fraction of variance due to u_i)				

F test that all u_i=0: F(9, 84) = 12.55 Prob > F = 0.0000

Appendix 3

First letter sent to target interviewees (see 6.3.2)

22nd July 2014

Dear Sir or Madam

My name is Eun Sun Godwin and I am a PhD research student at the University of Wolverhampton under the supervision of Dr Mark Cook. I am inviting you to kindly participate in my research study. As part of my research I am undertaking in-depth analysis with a small group of selected Emerging Market companies to consider the determinants behind their decision to invest in the West Midlands.

Each interview should only take 25 minutes and participation is strictly voluntary. I realise that I am contacting you at a busy time of the year, but your information would help fill some of the gaps in Emerging Market inward FDI to the UK and more specifically to the West Midlands.

The data collected through the interviews will provide useful information regarding factors which influence foreign firms' investment decisions in the UK and in particular examine the difference that might exist between emerging market company FDI to the West Midlands and that from developed economies. My research, supported by your information, will therefore help the UK's government and its regional partners to understand the strategic determinants of inward investment decisions and assist them in attracting foreign investment and furthermore, encourage them to stay and expand their investment. This knowledge not only will benefit agencies but also provide benefits to current and future investors from Emerging Market. I can also provide an overview of the results to participants.

Please accept my apologies if I have directed this letter to the wrong person. If that is the case, can you pass it to an appropriate respondent.

If you require additional information or have any questions, please contact me or my supervisor, Dr Mark Cook at the emails below.

Sincerely,

Eun Sun Godwin

E.S.Godwin@wlv.ac.uk

mark.cook@wlv.ac.uk

Reminder letter sent to target interviewees (see 6.3.2)

24th October 2014

Dear Sir or Madam

My name is Eun Sun Godwin and I am a PhD research student at the University of Wolverhampton under the supervision of Dr Mark Cook. On July 22nd 2014, I sent you a letter asking if you would kindly grant me an interview to help towards my PhD research into emerging market inward FDI into the West Midlands. At present I have not heard from you. Recognising your very busy schedule, I am sending you this letter as a reminder to please take a moment to consider participation in my research.

My research, supported by your information through the interviews, will help the UK's government and its regional partners to understand the strategic determinants of the inward investments from the increasingly important inward investment source, Emerging Markets. Moreover, this will in turn provide benefits to current and future investors from Emerging Markets by assisting the relevant agencies to introduce appropriate policies to attract and retain investment from these markets.

If you require additional information or have any questions, please do not hesitate to contact me or my supervisor, Dr Mark Cook at the emails below.

Sincerely,

Eun Sun Godwin

Appendix 4

Summary of case study finding 1 – entry investment decision (see 6.4.3.1)

Category	M&A	Greenfield
History and assets of the firm evaluated from external sources (M&A only)	<p>Firm 1A: “A leading British producer...” (<i>parent company report</i>)</p> <p>Firm 1B: “the largest forgings company in UK” (<i>parent company report</i>)</p> <p>Firm 1G: “the largest...Toll Processor in the UK” (<i>news media</i>)</p> <p>“well-established customer base” (<i>news media</i>)</p> <p>“vastly experienced in this sector and enjoy excellent reputations” (<i>news media</i>)</p>	
Parent company background (both M&A and Greenfield) and assets (Greenfield)	<p>Firm 1A’s: “their total headcount is something like 2,000 people”; “is part of...a very large corporate group. 106, 000 employees are there”; “supplies its products directly to the UK”; “(compare to our parent company) we are relatively small” (<i>interview transcript</i>)</p> <p>Firm 1B’s: “We are a part of...an</p>	<p>Firm 1L’s: “the leading lighting brand in China”; “established in 1998 and has been the No.1 in the Chinese lighting industry” (<i>parent company website</i>)</p> <p>Firm 2A’s: “recognised as a world leader...with a strong presence in both Europe and Asia”; “built the first biomass power plant in China and is responsible for over 30% of</p>

	<p>industrial group...(which)...has presence in 4 continents and 15 countries.”; “a global leading forging company through several strategic acquisitions...(some of which) were originally acquired... by our promoter”; “part of Indian automotive and tractor company” (<i>parent company website</i>)</p> <p>Firm 1G’s: “has a global steel production capacity”; “part of...a leading player in the sectors... (which)...has operations in more than 20 countries across five continents. The group employs 60,000 people, with revenues of \$15 billion” (<i>parent company CEO interview with news media</i>)</p>	<p>the biomass power plants operating in China today” (<i>parent company website</i>)</p>
<p>Previous investment or trade experiences in the UK or Europe; connected to proposition 1-6</p>	<p>Firm 1A: “we are the only asset and trade experience they have in the UK” (<i>interview transcript</i>)</p> <p>“previous owner...English company...(was)...one of largest oil traders...(and)...perceived our plant parent company) as non-core asset, and in the end adopted the decision to get rid of it” (<i>parent company executive interview with home country news media</i>)</p> <p>Firm 1B: “We have grown into a global leading forging company through several strategic acquisitions...(in Europe)...over the last few years (<i>parent company website</i>)</p> <p>Firm 1G: “its (parent company’s) first-ever UK buyout” (<i>home</i></p>	<p>Firm 3A: “parent company...(does not)...have previous foreign investment experience in European Market including the UK”; “They (parent company) sold a few million pounds directly from China to the UK for a couple of years”; “The main reason and the first one is because at that time they were already for a couple of years directly supplying from the factory into the UK” (<i>Interview transcript</i>)</p> <p>Firm 1L: “Having exported to the UK for several years, in June 2007 the company acquired a lighting business in London.”; “its first foreign subsidiary” (<i>UKTI case study</i>)</p> <p>“(parent company) supplied lighting products to British brands as an original equipment</p>

	country news media)	<p>manufacturer” (<i>Home country news media</i>)</p> <p>Firm 2A: “With a dominant footprint in Europe and Asia” (<i>news media</i>)</p> <p>“(parent company) already has a UK reference which is one of the largest straw-fired plants in the world.” (<i>parent company press release</i>)</p>
Entry investment Decision:		
1) Strategic-asset seeking related to proposition 1-1	<p>Firm 1A: “they were looking to buy assets in Europe”; “because we potentially use their raw material and we are and what we do is very much part of their core business interest” (<i>interview transcript</i>)</p> <p>“having its power in England, we receive access to the distribution network in Europe”; “acquired modern technology, exclusively promising business asset” (<i>parent company executive interview with home country news media</i>)</p> <p>Firm 1B: “the acquisitions... provides us access to technology, markets and in each case more than a hundred years of trust and mutual interdependence with key customers”; “access to both higher value added technology as well as global clientele” (<i>parent company website</i>)</p> <p>“M&A’s are at the core of the</p>	<p>Firm 3A: “The scaffolding industry is mainly maintained by the British (companies). They maintain the whole system and basically over 90% of the related products are maintained by British (companies). They have a very strict standard and quality control” (<i>interview transcript</i>)</p> <p>Firm 1L: “the company’s ability to leverage existing R&D and manufacturing strengths in Birmingham, together with the area’s connectivity, had led them to invest in this location to drive its European growth strategy” (<i>interview of the managing director with local business partnership media source</i>)</p> <p>“The UK is the ideal place from which to pursue this goal, for several reasons. It’s a leader in</p>

	<p>growth strategy”; “by acquiring European companies Indian forged component suppliers get a distinct advantage of easy access to world class manufacturers.” (<i>news media case study</i>)</p> <p>Firm 1G: “The acquisition is in line with...(parent company’s)... distribution strategy” (<i>news media case study</i>)</p>	<p>manufacturing technology.”; “Experienced lighting sales engineers are based throughout the UK” (<i>parent company web page</i>)</p>
<p>2) Market seeking: related to proposition 1-2 and 1-3</p>	<p>Firm 1A: “to expand its industrial activity on the international level and to get access to new promising European markets” (<i>parent company web page</i>) / “It was always possibility that they wanted to buy...(this company)...as a means to sell their product in the UK... Potentially we are a purchaser of their raw material.”; “(the parent company) bought (Firm 1A) in order to help them to develop links and routes into the European market. That was their stated aim”; “Their primary strategic aim was to help them to develop European markets” (<i>interview transcript</i>) / “the purchase allows going into the European market”; “by purchasing rafters in Britain and now sending our own zinc there, which is practically without duties (duty is minimal)...we increased the volume of sales in European non-ferrous metal alloy market with high value added for automotive, construction, electronics manufacturing”; “having its power in England, we receive access to the distribution network in Europe”</p>	<p>Firm 3A: “they found needs to set up company here to look after the customers.”; “The main reason of the investment abroad is only because it can make more profit than in domestic markets.”; “They wanted to expand the market share (in the UK)”; “the scaffolding product requires...most importantly a really good communication with customers... So, they had to set up company here to get better understanding of the market, which can really help the factory to grow.” (<i>interview transcript</i>)</p> <p>“one of the largest importers of scaffolding goods in the UK” (<i>company website</i>)</p> <p>Firm 1L: “Our intention is to increase business in Europe, using Birmingham and the UK as the gateway.”; “The UK market kind of mirrors European markets”; “Our success in the UK can act as a springboard to our European expansion.” (<i>CEO interview in news media</i>)</p>

	<p>(parent company executive interview with local news media)</p> <p>Firm 1B: “for rapid market expansion, and access to both higher value added technology as well as global clientele.” (parent company annual report) / “Many firms are into manufacturing components that go into defunct designs still existing in the East European and Middle East like British Leyland” (Business report on the industry) / “There is stiff competition from other Indian forging companies and from companies with manufacturing facilities in other low cost countries like China” (parent company web page)</p> <p>Firm 1G: a well-established customer base serving many sectors of the UK steel market</p>	<p>Firm 2A: “The UK is expected to be a promising market”; “the biomass and waste to energy industries appear to be gaining momentum in the UK”; “Increased public awareness of the environmental need for base load and, renewable power”; “The opening of a UK office is solid testament to our belief in the potential of the UK market” (parent company press release)</p>
<p>3) Institution seeking: related to proposition 1-4 and 1-5</p>	<p>Firm 1A: The tax, currency and customs legislation within the Russian Federation and the Republic of Kazakhstan is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation and the Republic of Kazakhstan. (parent company annual report)</p>	<p>Firm 1L: “The investment, regulatory and legal environments...(in the UK)...are clearly defined and implemented impartially. There’s widespread respect for intellectual property, which we value highly given our investment in product design.” (UKTI case study)</p> <p>Firm 2A: “Increased public awareness of the environmental need for base load and, renewable power”; “Under a more motivated political environment” (Company press release)</p>

<p>4) Host region factors (regional factors which influenced on locational decision): related to proposition 1-7, 1-8 and 1-9</p>		<p>Firm 3A: “it had to be close to the existing customers and had to be good in terms of transport. Also it had be cost-effective.”; “Most of our customers are based in the West Midlands area, so (we thought) it is best to come here”; “Birmingham is the second largest city in the UK and it has a pretty big china town...all these factors were positive towards choosing Birmingham as the company investment location” (<i>interview transcript</i>)</p> <p>Firm 1L: “The warehouse is close to the M5 & M42 motorways, and our wholesaler customers are welcome to collect their goods by prior arrangement if that suits them” (<i>company web page</i>)</p>
<p>5) Home factors</p>	<p>Firm 1B: “The period between 2005-06 and 2006-07 has seen very impressive growth in the domestic sales of both passenger and commercial vehicles.”; “Forging seems to be the word in the Indian auto component sector” (<i>Industry analysis from business report</i>)</p>	<p>Firm 3A: “Chinese government supported the steel-related manufacturing industry by cutting the tax and by giving tax rebate. They were very good incentives for factories to produce and sell more (abroad)”; “They push factories to go abroad by purely financial support” (<i>interview transcript</i>)</p> <p>Firm 1L: “the leading lighting brand in China and has supplied many major projects”; “has been the No.1 in the Chinese lighting industry”; “going abroad through acquisition has become increasingly common for Chinese businesses.”; “For Chinese-funded institutions, especially for private enterprises, overseas investment is</p>

		an inevitable trend in order to go abroad” (<i>company press release</i>)
6) External factors		Firm 2A: “With global emissions standards for biomass and waste-to-energy power plants becoming increasingly strict”(company case study

Appendix 5

Summary of case study finding 2 – re- or expansionary investment decision (see 6.4.3.2)

Category	M&A	Greenfield
Post-investment stage		
Performance	<p>Firm 1A: “decrease of sales volume”; (<i>parent company annual report</i>)</p> <p>“I suspect that the financial numbers associated with...(the company)... are attractive to them, but nonetheless are relatively small” (<i>interview transcript</i>)</p> <p>Firm 1B: “our Subsidiaries which operate in the European markets are facing significant financial difficulties. For example, one of our Subsidiaries (the company in the UK), has been facing severe financial difficulties because of the global downturn. Our Company recently shut down one of its manufacturing plants at Walsall”; “We are currently implementing various measures to adapt our European operations to lower production volumes, which include a</p>	<p>Firm 3A: “The investment was very large but the return and the profit margin has been small”; “It was difficult times for last a couple of years, but this year, everything has been good and market growth has come back (to the positive growth) slowly again...But the profit margin is still at ‘retaining’ level”; “If you put from 1 to 5 points...(about the satisfactory level of initial investment)...it is 3. Just in the middle”; “It is not as good as we expected to be, but we are working on that” (<i>interview transcript</i>)</p> <p>Firm 1L: “The success of the company is shown in its turnover which is set to hit £25 million by the end of this December”; “The rapid rate of expansion at NVC in the UK has already seen the company grow from an initial staff of seven to over 70 permanent employees” (<i>local</i></p>

	<p>headcount reduction, controls on costs, lowering inventories and efficient working capital management.” (<i>parent company annual report</i>)</p>	<p><i>business partnership press release</i>)</p> <p>“in 2009, and in the past two years the business has seen rapid growth” (<i>local news media</i>)</p> <p>Firm 2A: “was awarded the contract to supply the Flue Gas Treatment system for Devon County Council's first waste-to-energy power plant in Exeter” (<i>company case study</i>)</p>
1) External environment	<p>Firm 1A: “The business then entered a patch of reduced profitability and this is to do with exchange rates” (<i>interview transcript</i>)</p> <p>“Global markets crisis has had a negative effect on zinc industry and affected our operating performance”; “drastic decrease of world zinc prices (by 42%) and lead prices (by 20%)”; “The main auto concerns production and sales falls also influenced the consumption volumes of major automotive industry process materials”; “In spite of performance slowdown caused by the recession,...(the company)...pursues active policy on sales market development in Great Britain, continental Europe, Middle East and countries of North Africa” (<i>parent company annual report</i>)</p> <p>Firm 1B: “Primarily due to the downturn in the automotive industry across the globe and its effect on their business and operations” (<i>parent company annual report</i>);</p>	<p>Firm 3A: “First of all, (it is because of) the exchange rate. It was 1 pound to 15 RMB, but it is now 1 pound to 9.6-9.7. Effectively, the cost has gone up”; “Main difficulties (were) because of economy. Because of the recession, housing market (growth) dropped dramatically and the demand for scaffolding has gone down as well” (<i>interview transcript</i>)</p> <p>Firm 1L: “(its) growth is because of the strong market demand for energy efficient products...which... (the company)...has in abundance” (<i>local news media</i>)</p> <p>“Our growth may seem surprising in a business serving the construction sector, parts of which are still suffering the effects of recession” (<i>CEO interview</i>)</p> <p>“founder and CEO...at the opening of the new premises” (<i>company's press release</i>)</p> <p>“expanding its UK base at Rubery near Birmingham, with the official opening of new premises by...chief executive officer of parent company” (<i>local business partnership media source</i>)</p> <p>“We are delighted with the strength</p>

		of NVC's performance in the UK. With such a strong period of trading over the past three years, we are certainly looking to replicate in the UK the success of our Chinese counterpart" (<i>CEO interview with local news media</i>)
Expansionary investment		
1) Cultural distance (autonomy; localisation)	Firm 1A: "we employ 32 people and the 32 people are all UK national"; "a very good relationship with our owners and they give us great freedom and autonomy to operate business."; "in terms of sales and operations, we are really very free to run our own business...in the way that any normal independent business might expect to"; "Although it is very much a Russian-owned conglomerate, the people that we interact with and the way that they run the business is, in my experience is not very different...In terms of day-to-day interaction and the way that they run the business and what happens at the very top of the tree, I'm, sure it is very Russian rather than very western"; "I don't think culture has really been an issue. Language barrier is evident. It sometimes takes longer to convey meaning and to develop understanding"; "I suspect we are not as close as we might be with some of (the parent company) because we don't speak Russian and they don't speak English...but...the people that we are in contact with have really good English language skills."; "It's always been quite autonomous"; "they have given us autonomy and they haven't directed our sales strategy. The growth of the business is really something that we have driven locally rather than under their	Firm 3A: "At the moment, 5 employees are local and me (Chinese)"; "The director is British"; "The only cultural barrier is between this company and Chinese shareholders. But slowly (there have been efforts) to understand (each other) more and more deeply."; "the cultural difference is not an issue in the market but inside of the company"; "The parent company is controlled or managed by people in China...they don't get involved what is happening in the UK daily...long distance and time difference"; "all these kinds of little things can create confusion or disbelief"; "they did not get the same information they wanted or their request did not get passed to the UK staff clearly or accurately"; "I don't feel any difficulties (related to cultural differences), because I have been here (in the UK) since 2004. So I lived here for nearly 10 years. There is no cultural difference or difficulties between me and other British employees"; "I spent more time communicating between these two parts and tried to make them understand each other more"; "reduce confusion and increase more belief and trust within the company"; "You have to have that kind of bridge (between a foreign subsidiary and the parent company...It is a good solution for overseas company, group or

	<p>instruction...They don't understand the market in the way our sales team do and they are happy to let us develop the market" (<i>Interview transcription</i>)</p> <p>"All of...(the company's)...existing management team and employees will transfer with the business"; "(parent company) confirmed in a press release today that the jobs of...(all of the company's)...employees remain secure"(<i>news media</i>)</p> <p>"an absolute priority of the company is preservation of workplaces" (<i>Home country news media</i>)</p> <p>Firm 1G: "CEO and CFO of the former...(previous company name under parent company's brand)...owned company, completed a management buy-out of the business...(and they)...are vastly experienced in this sector and enjoy excellent reputations" (<i>news media</i>)</p> <p>"have completed a Management Buy-out (MBO) of the business which has changed its name to...(its original name)"; "Despite the fact that it has not been used for a number of years, the...name still resonates within the UK steel market and we intend to build on its excellent reputation; The focus of the business will return to its roots" (<i>news media</i>)</p>	<p>organisation to have somebody doing communication to make everybody understand each other" (<i>interview transcript</i>)</p> <p>Firm 1L: "Out of the 80-plus employees at its Birmingham factory, only three are Chinese, whose main job is to liaise with... China factory on the dispatch of product orders" (<i>interview with director of UK subsidiary in local news media</i>)</p> <p>"employed British management elites within the industry and maximized localization management, playing a major role in independent research and development of lighting products that are suitable for the United Kingdom as well as the Commonwealth"; "Currently, among the 100 employees, more than 95% of them are natives, most of whom are proud of working in such a prosperous Chinese company with a sense of security"; "(parent company) encourages and subsidizes local employees to continue their education, training and learning"; "Cultural differences make integration extremely difficult...it's very important to be localization...NVC is still relatively new in the UK market, so it is important that we establish the best possible image for ourselves" (<i>CEO interview</i>)</p> <p>"This has been designed with the needs of the UK market to the fore, and was an almost instant success"; "We are a Chinese company, but our design and product range selection is driven entirely from the UK" (<i>CEO interview with local news</i>)</p>
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		<p><i>media</i>)</p> <p>“allowed its British executives to make their own decisions” (case study for Chinese business)</p>
2) Duration	<p>Firm 1A: “the proposal for the investment will raise our profile on the radar of our owners.”; “There has been a change in personnel... (and his)...visit where he actually sees us and meets the people will also raise our profile on his radar.”; “On the basis of supply and the money that changes hands through buying and selling raw materials, you can say that the relationship is developing.”; “the process of question and answer and the looking for what was causing the impact together, both our owner and us, has led to closer working. We have built relationships with some of their people and their people have built relationships with us.”; “We are probably closer to them now than we were”; “Yes, it (the relationship) is going a more positive direction”; “We have a good record of hitting our budgets and delivering the results that our owners are looking for. They trust the management team. They let us get on with running the business”; “their trust in our historical performance and our management team” (<i>interview script</i>)</p>	<p>Firm 3A: “But slowly (there have been efforts) to understand (each other) more and more deeply”; “There have not been any significant changes but some improvements. As time goes by, all the staff’s experience grows and the trust (amongst them) builds up then the operation gets smoother. Not too many conflicts or arguments. In that sense, the operation gets better and better. So, there is an improvement but not big change.”; “(trust and communication between the company and the parent company) has also been improved”;</p>
3) Host factors		<p>Firm 1L: “Business Birmingham has worked with (the company) to support its recent and ongoing investments into the Birmingham area”; “We are working closely with Business Birmingham to maximise future opportunities available in the region”; “Richard Norgrove, property director at Hortons, said: We have worked closely with (the company)</p>

		<p>since it moved to the site, and we are delighted that the relationship we have built up has given it the confidence to use this location as part of its ambitious plans for growth” (<i>Business partnership press release</i>)</p> <p>“(The company) has grown in the UK with support from UK Trade & Investment (UKTI) who made introductions to local businesses and provided practical support”; “As the company has grown its UK presence, UKTI has made introductions to local businesses, included it in high profile events and provided practical support, to help (the company) feel at home” (<i>UKTI case study</i>)</p> <p>“We have a strong feeling of being looked after by UKTI...Through them we have got to know people and become more established in the mainstream British business community. In the relatively short time that we have been here, we have already grown to be one of the top 10 lighting suppliers in the UK. I can't imagine us achieving all this without UKTI's support” (<i>Chairman of the company interview in UKTI case study</i>)</p> <p>“managing director of (the company), said working alongside complimentary firms in the region had been instrumental in driving the firm's growth” (<i>local news media</i>)</p>
4) Market factors	<p>Firm 1A: “It would be a considerable explosion and expansion for (the company). Because (the company) already supplies 100% of the UK market, it would mean we are developing sales in new UK markets but also potentially developing exports to Europe and beyond”; “It would allow us to capitalise on</p>	<p>Firm 3A: “First of all, because we have a lot of enquiries from the existing customers. They predicted a very healthy and good growth for the next year, so they want to order more kits from us. That's why we thought we are going to meet their demand and we are going to invest more for a short term” (<i>interview</i>)</p>

	<p>market opportunities to grow the business that we see, so the first reason for it is sales growth”; “The third reason is that it will greatly increase the productivity of the manufacturing process and that will help reduce our unit costs for manufacturing. This will help us to be more competitive and to develop our sales opportunities profitably” (<i>interview transcript</i>)</p>	<p><i>transcript</i>)</p> <p>Firm 1L: “The investment will allow NVC to store up to 11,000 pallets, double its current capacity, ready for distribution across the UK and Europe” (<i>local news media</i>)</p>
5) Other factors		<p>Firm 3A: “Our (business) development is linked to the construction and housing market very closely. If the housing or construction market goes up we will go up, if they go down, then we will go down”; “And also General Election is coming. If the government changes, government policies will change and they will affect everything such as cost etc.” (<i>interview transcript</i>)</p>
6) Other foreign investments	<p>Firm 1B: “sister companies across Europe and India, together forming one of the top 5 Forging Groups in the World”; “German operations are a full range provider of forging parts while being one of the top four axle beam manufacturers in the world” (<i>company website</i>)</p> <p>Firm 1G: “Besides India, it has facilities in Canada and the USA”; “The company operates seven service centres in India, Indonesia and Canada” (<i>Company website</i>)</p>	

Appendix 6

Unemployment rates in the UK by regions (see 7.3.2)

Percentages					
	Second quarter of each year				
	2005	2006	2007	2008	2009
United Kingdom	4.8	5.5	5.4	5.4	7.8
North East	6.8	6.1	6.3	7.5	9.8
North West	4.4	5.3	5.8	6.4	8.5
Yorkshire and The Humber	4.8	5.8	5.5	6.0	8.8
East Midlands	4.3	5.5	5.0	5.6	7.3
West Midlands	4.6	5.6	6.7	6.2	10.5
East	3.9	5.0	4.6	4.6	6.5
London	7.1	7.8	7.4	6.7	8.8
South East	3.8	4.7	4.3	4.1	5.9
South West	3.2	3.8	4.0	3.8	6.4
England	4.7	5.5	5.5	5.5	7.9
Wales	4.5	5.6	5.5	5.2	7.7
Scotland	5.5	5.5	4.7	4.2	7.0
Northern Ireland	5.0	4.3	3.8	4.1	6.8

Source: Labour Force Survey, ONS

APPENDIX 7: INTERVIEW QUESTIONS (PROTOCOL FOR THE INTERVIEW)

PART 1: CHARACTERISTICS OF COMPANIES

The first set of questions will be about the general characteristics of the company and investment.

1. When was the date of the first investment in the UK? Was this a 'Greenfield' or 'M&A' investment?
2. Is the subsidiary in the UK fully owned/partially owned by the parent company? If it is partially owned, could you specify the proportion?
3. Are there any expatriates from the home country in the company? If so, what is the proportion compared with local employees? Could you also specify what role do they play in the company?

PART 2: INTERNATIONALISATION HISTORY

The next set of questions will be about the internationalisation history of the parent company in terms of trading or other foreign investment experience.

4. Was your parent company involved in trading, either exporting or importing, prior to its first foreign investment? If so, could you please give details in terms of which markets?
5. Is the current overseas investment your parent company's first foreign investment?
6. If not, could you tell me the details of your parent company's other overseas operation prior to the current investment?
 - 6-1. Do you think the previous foreign investment experiences of your parent company have influenced subsequent foreign investments? If so, could you please describe how?

7. Did your parent company have any prior business experience with UK national company in its home country?

7-1. If so, could you tell me the details please?

7-2. Do you think these experiences of your parent company have had influence on its investment decision in the UK? If so, could you tell how this occurred?

PART 3: ENTRY DECISION TO THE UK

The next set of questions will be regarding your company's entry decision to the UK.

8. What were the major reasons behind the decisions of your parent company's investment in the UK?

9. Was there any specific reason why your company chose the West Midlands rather than another UK region? If so, could you please specify what the reasons were and explain how they influenced the investment in the West Midlands?

10. Were there any home country factors which had influence on your company's foreign investment decision (either positively or negatively)? If so, could you please specify them and explain how they influenced the investment?

PART 4: POST-INVESTMENT STAGE

The next set of questions will be regarding the post-investment stage in terms of your company's success, satisfaction or difficulties regarding your current investment.

11. Overall, how would you describe the outcome of your company's current investment in the West Midlands?

12. Could you also explain why you think this is the case?

13. As a foreign firm, has your company faced any issues or difficulties caused by cultural differences in the UK?

13-1. If so, could you specify them please?

13-2. Could you also explain how you dealt with them?

14. Your company has been operating in the West Midlands since XXXX. Have there been issues with your company's foreignness in the West Midlands? If so, do you think your company's foreignness has reduced as time has gone by?

15. Were there any host country or regional factors which have helped your company's investment in a foreign country? If so, could you please specify them and explain how they influenced your original investment?

16. Were there any host country or regional factors which have hindered your company's investment in a foreign country? If so, could you please specify them and explain how they influenced your original investment?

PART 5: FURTHER INVESTMENT DECISION

The last set of questions are related to any further investment plans.

17. Does your company have any re- or expansionary investment plan?

17-1. If so, could you tell me the details please (if not, ask whether they intend to maintain or decrease/withdraw the investment)?

17-2. Could you also explain the major reason for your company's further investment plan (similarly, if not, ask the reason)?

18. Are there any host country/regional factors that have influenced your company's further investment/de-investment decision in the region? If so, could you please specify them and explain how they influenced?

19. Has your company's lack of integration as a foreign company had any influence on your company's further investment decision in the region? If so, could you please explain how it has been influenced?

20. Do you think that the duration of your experience since your first operation has any influence on your company's further investment decision in the region? If so, could you please explain how it has influenced the investment?

21. Are there any factors besides the ones mentioned above which have influenced your company's further investment decision in the region?